SECURITIES AND EXCHANGE COMMISSION

FORM 485B24E

Post-effective amendments

Filing Date: **1995-07-28**
SEC Accession No. 0000091155-95-000240

FILER

SMITH BARNEY ARIZONA MUNICIPALS FUNDS INC
CIK:**811706**| State of Incorp.:**MD** | Fiscal Year End: **0531**
Type: **485B24E** | Act: **33** | File No.: **033-12792** | Film No.: **95556864**

Business Address
TWO WORLD TRADE CENTER
NEW YORK NY 10048
6172486084

Registration No. 33

12792

811-5066

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form N-1A

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 _X_

Pre-Effective Amendment No.

___

Post-Effective Amendment No. 17

_X_

REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940 _X_

Amendment No. 19

_X_

SMITH BARNEY ARIZONA MUNICIPALS FUND INC.
(Exact name of Registrant as specified in Charter)

388 Greenwich Street, New York, New York 10013 (Address of Principal Executive Offices) (Zip Code)

(212) 720-9218
Registrant's Telephone Number, including area code

Christina T. Sydor
Secretary

Smith Barney Arizona Municipals Fund Inc. 388 Greenwich Street, New York, NewYork 10013
(Name and Address of Agent for Service)

Approximate Date of Proposed Public Offering: As soon as possible after this Post-Effective Amendment becomes effective.

It is proposed that this filing

becomes effective:
____ immediately upon filing pursuant to Rule 485(b) _X__ on July 30, 1995, pursuant to Rule 485(b) ____ 60 days after filing pursuant to Rule 485(a) The Registrant has previously filed a declaration of indefinite registration of its shares pursuant to Rule 24f2 under the Investment Company Act of 1940, as amended. Registrant's Rule 24f-2 Notice for the fiscal year ended May 31, 1995 was filed on July 17, 1995.

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933x

Title of SecuritiesBeing Registered Proposed Maximum Offering Amount Being Registered2 Proposed
Maximum Aggregate Price Per Unit2 Proposed

Maximum Aggregate Offering Price8

Registration Fee Shares of CommonStock par

value$.001 per shareof Smith BarneyArizona

Municipals FundInc. 1,607,290 $9.94 $15,976,462

$100.00

x The shares being registered as set forth in this table are in addition to the indefinite number of shares of common stock which the Registrant has registered under the Securities Act of 1933, as amended (the "1933 Act"), pursuant to Rule 24f-2 under the Investment Company Act of 1940, as amended (the "1940 Act"). The Registrant's Rule 24f2 Notice for the fiscal year ended May 31, 1995 was filed on July 17, 1995.

2 Based on the Registrant's Class A closing price

of $9.94 on July 24, 1995 pursuant to Rule 457(d)

under the 1933 Act and Rule 24(e)-2 under the

1940 Act. 8In response to Rule 24(e)-2 (b) under

the 1940 Act: (1) the calculation of the maximum

aggregate offering price is made pursuant to Rule

24e-2; (2) 1,462,729 shares of common stock

were redeemed by the Registrant during the fiscal

year ended May 31, 1995; (3) 145,439 of such

shares are being used for reductions pursuant to

Rule 24f-2 during the current fiscal year; and

(4)1,317,290 shares are being used for reduction

in this amendment pursuant to Rule 24e2(a).

SMITH BARNEY ARIZONA MUNICIPALS FUND

INC.

FORM N-1A

CROSS REFERENCE SHEET

PURSUANT TO RULE 495(a)

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2. Synopsis Prospectus Summary
3. Condensed Financial Information
Financial Highlights 4. General
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Prospectus Summary;
Investment Objectives and Management
Policies; Additional Information
5. Management of the Fund Management of the Fund; Distributor;
Additional Information
6. Capital Stock and Other Securities Investment Objective and
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Information 7. Purchase of Securities Being Offered Purchase of
Shares; Valuation of Shares; Redemption of Shares; Exchange

Privilege ; Minimum Account Size; Distributor; Additional Information 8. Redemption or Repurchase Purchase of Shares; Redemption of Shares; Exchange Privilege 9. Legal Proceedings Not Applicable
Part BItem No. Statement of Additional Information Caption 10. Cover Page Cover Page
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Management of the Fund; Distributor
15. Control Persons and Principal Holders of Securities Management of the Fund
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21. Underwriters Distributor
22. Calculation of Performance Data Performance Data 23. Financial

Statements Financial Statements

P R O S P E C T U S

SMITH BARNEY Arizona Municipals Fund Inc.

JULY 30, 1995

PROSPECTUS BEGINS ON PAGE ONE

[LOGO APPEARS HERE]
Smith Barney Mutual Funds
Investing for your future.
Every day.

SMITH BARNEY
Arizona Municipals Fund Inc.

PROSPECTUS JULY 30, 1995

388 Greenwich Street
New York, New York 10013
(212) 723-9218

Smith Barney Arizona Municipals Fund Inc. (the "Fund") is a diversified municipal fund that seeks to provide Arizona investors with the maximum amount of income exempt from Federal and Arizona state income taxes as is consistent with the preservation of capital.

This Prospectus concisely sets forth certain information about the Fund, including sales charges, distribution and service fees and expenses, that pro spective investors will find helpful in making an investment decision. Invest ors are encouraged to read this Prospectus carefully and retain it for future reference.

Additional information about the Fund is contained in a Statement of Addi tional Information dated July 30, 1995, as amended or supplemented from time to time, that is available upon request and without charge by calling or writing the Fund at the telephone number or address set forth above or by contacting a Smith Barney Financial Consultant. The Statement of Additional Information has been filed with the Securities and Exchange Commission (the "SEC") and is incorporated by reference into this Prospectus in its entirety.

SMITH BARNEY INC.
Distributor

SMITH BARNEY MUTUAL FUNDS MANAGEMENT INC. Investment Adviser and Administrator

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE

SMITH BARNEY
Arizona Municipals Fund Inc.

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No person has been authorized to give any information or to make any representations in connection with this offering other than those contained in this Prospectus and, if given or made, such other information or representations must not be relied upon as having been authorized by the Fund or the Distributor. This Prospectus does not constitute an offer by the Fund or the Distributor to sell or a solicitation of an offer to buy any of the securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction

SMITH BARNEY
Arizona Municipals Fund Inc.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by detailed information appearing elsewhere in this Prospectus and in the Statement of Additional Information. Cross references in this summary are to headings in the Prospec tus. See "Table of Contents."

INVESTMENT OBJECTIVE The Fund is an open-end, diversified management investment company that seeks to provide Arizona investors with the maximum amount of income exempt from Federal and Arizona state income taxes as is consistent with the preservation of capital. Its investments consist primarily of intermediateand long-term investment-grade municipal securities issued by the State of Arizona and its political subdivisions, agencies, authorities and instumentalities, and certain other municipal issuers such as the Commonwealth of Puerto Rico, the Virgin Islands and Guam ("Arizona Municipal Securities") that pay interest which is excluded from gross income for Federal income tax purposes and exempt from Arizona state personal income taxes. Intermediate and long-term securities have remaining maturities at the time of purchase of three to in excess of twenty years. See "Investment Objective and Management Policies."

ALTERNATIVE PURCHASE ARRANGEMENTS The Fund offers several classes of shares ("Classes") to investors designed to provide them with the flexibility of selecting an investment best suited to their needs. The general public is offered three Classes of shares: Class A shares, Class B shares and Class C shares, which differ principally in terms of sales charges and rate of expenses to which they are subject. A fourth Class of shares, Class Y shares, is offered only to investors meeting an initial investment minimum of $5,000,000. See "Purchase of Shares" and "Redemption of Shares."

Class A Shares. Class A shares are sold at net asset value plus an initial sales charge of up to 4.00% of the purchase price and are subject to an annual service fee of 0.15% of the average daily net assets of the Class. The initial sales charge may be reduced or waived for certain purchases. Purchases of Class A shares which, when combined with current holdings of Class A shares offered with a sales charge, equal or exceed $500,000 in the aggregate, will be made at net asset value with no initial sales charge, but will be subject to a contingent deferred sales charge ("CDSC") of 1.00% on redemptions made within 12 months of purchase. See "Prospectus Summary--Reduced or No Initial Sales Charge."

Class B Shares. Class B shares are offered at net asset value subject to a maximum CDSC of 4.50% of redemption proceeds, declining by 0.50% the first year after purchase and by 1.00% each year thereafter to zero. This CDSC may be waived for certain redemptions. Class B shares are subject to an annual service fee of 0.15% and an annual distribution fee of 0.50% of the average daily net assets of the Class. The Class B shares' distribution fee may cause that Class to have higher expenses and pay lower dividends than

Class A
shares.

Class B Shares Conversion Feature. Class B shares will convert automatically to Class A shares, based on relative net asset value, eight years after the date of the original purchase. Upon conversion, these shares will no longer be subject to an annual distribution fee. In addition, a certain portion of Class
B shares that have been acquired through the reinvestment of dividends and
dis-
tributions ("Class B Dividend Shares") will be converted at that time. See "Purchase of Shares--Deferred Sales Charge Alternatives."

Class C Shares. Class C shares are sold at net asset value with no initial sales charge. They are subject to an annual service fee of 0.15% and an annual distribution fee of 0.55% of the average daily net assets of the Class, and investors pay a CDSC of 1.00% if they redeem Class C shares within 12 months of purchase. This CDSC may be waived for certain redemptions. The Class C shares' distribution fee may cause that Class to have higher expenses and pay lower dividends than Class A and Class B shares. Purchases of Class C shares which, when combined with current holdings of Class C shares of the Fund, equal or exceed $500,000 in the aggregate, should be made in Class A shares at net asset value with no sales charge, and will be subject to a CDSC of 1.00% on redemptions made within 12 months of purchase.

Class Y Shares. Class Y shares are available only to investors meeting an initial investment minimum of $5,000,000. Class Y shares are sold at net asset value with no initial sales charge or CDSC. They are not subject to any service
or distribution fees.

In deciding which Class of Fund shares to purchase, investors should consider the following factors, as well as any other relevant facts and circumstances:

Intended Holding Period. The decision as to which Class of shares is more beneficial to an investor depends on the amount and intended length of his or her investment. Shareholders who are planning to establish a program of regu-

lar investment may wish to consider Class A shares; as the investment accumu lates shareholders may qualify for reduced sales charges and the shares are subject to lower ongoing expenses over the term of the investment. As an alternative, Class B and Class C shares are sold without any initial sales charge so the entire purchase price is immediately invested in the Fund. Any investment return on these additional invested amounts may partially or wholly offset the higher annual expenses of these Classes. Because the Fund's future return cannot be predicted, however, there can be no assurance that this would be the case.

Finally, investors should consider the effect of the CDSC period and any conversion rights of the Classes in the context of their own investment time frame. For example, while Class C shares have a shorter CDSC period than Class B shares, they do not have a conversion feature, and therefore, are subject to an ongoing distribution fee. Thus, Class B shares may be more attractive than Class C shares to investors with longer term investment outlooks.

Investors investing a minimum of $5,000,000 must purchase Class Y shares which are not subject to an initial sales charge, CDSC or service or distribu tion fees. The maximum purchase amount for Class A shares is $4,999,999, Class B shares is $249,999 and Class C shares is $499,999. There is no maximum pur- chase amount for Class Y shares.

Reduced or No Initial Sales Charge. The initial sales charge on Class A shares may be waived for certain eligible purchasers, and the entire purchase price will be immediately invested in the Fund. In addition, Class A share purchases which, when combined with current holdings of Class A shares offered with a sales charge, equal or exceed $500,000 in the aggregate, will be made at net asset value with no initial sales charge, but will be subject to a CDSC of 1.00% on redemptions made within 12 months of purchase. The $500,000 aggregate investment may be met by adding the purchase to the net asset value of all Class A shares offered with a sales charge held in certain other funds sponsored by Smith Barney Inc. ("Smith Barney") listed under "Exchange Privilege." Class A share purchases may also be eligible for a reduced initial sales charge. See "Purchase of Shares."

Smith Barney Financial Consultants may receive different compensation for selling each Class of shares. See "Purchase of Shares" and "Management of the Fund" for a complete description of the sales charges and service and

PROSPECTUS SUMMARY (CONTINUED)

distribution fees for each Class of shares and "Valuation of Shares," "Divi dends, Distributions and Taxes" and "Exchange Privilege" for other differences between the Classes of shares.

PURCHASE OF SHARES Shares may be purchased through the Fund's distributor, Smith Barney, a broker that clears securities transactions through Smith Barney on a fully disclosed basis (an "Introducing Broker") or an investment dealer in the selling group. See "Purchase of Shares."

INVESTMENT MINIMUMS Investors in Class A, Class B and Class C shares may open an account by making an initial investment of at least $1,000. Investors in Class Y shares may open an account for an initial investment of $5,000,000. Subsequent investments of at least $50 may be made for all Classes. The minimum investment for Class A, Class B and Class C shares and the subsequent investment for all Classes through the Systematic Investment Plan described below is $50. There is no minimum investment requirement in Class A for unitholders who invest distributions from a unit investment trust ("UIT") sponsored by Smith Barney. See "Purchase of Shares."

SYSTEMATIC INVESTMENT PLAN The Fund offers shareholders a Systematic Investment Plan under which they may authorize the automatic placement of a purchase order each month or quarter for Fund shares in an amount of at least $50. See "Purchase of Shares."

REDEMPTION OF SHARES Shares may be redeemed on each day the New York Stock Exchange, Inc. ("NYSE") is open for business. See "Purchase of Shares" and "Redemption of Shares."

MANAGEMENT OF THE FUND Smith Barney Mutual Funds Management Inc. ("SBMFM") serves as the Fund's investment adviser and administrator. SBMFM provides investment advisory and management services to investment companies affiliated with Smith Barney. SBMFM is a wholly owned subsidiary of Smith Barney Holdings Inc. ("Holdings"). Holdings is a wholly owned subsidiary of Travelers Group Inc. ("Travelers"), a diversified financial services holding company engaged through its subsidiaries principally in four business segments: Investment Services, Consumer Finance Services, Life Insurance Services and Property & Casualty Insurance Services. See "Management of the Fund."

EXCHANGE PRIVILEGE Shares of a Class may be exchanged for shares of the same Class of certain other Smith Barney Mutual Funds at the respective net asset value next determined, plus any applicable sales charge differential. See "Ex change Privilege."

VALUATION OF SHARES Net asset value of the Fund for the prior day generally is quoted daily in the financial section of most newspapers and is also available from Smith Barney Financial Consultants. See "Valuation of Shares."

DIVIDENDS AND DISTRIBUTIONS Dividends from net investment income are paid on the last Friday of each calendar month to shareholders of record as of the preceding Tuesday. Distributions of net realized long and short-term capital gains, if any, are declared and paid annually after the end of the fiscal year in which they were earned. See "Dividends, Distributions and Taxes."

REINVESTMENT OF DIVIDENDS Dividends and distributions paid on shares of any Class will be reinvested automatically in additional shares of the same Class at current net asset value unless otherwise specified by an investor. Shares acquired by dividend and distribution reinvestments will not be subject to any sales charge or CDSC. Class B shares acquired through dividend and distribution reinvestments will become eligible for conversion to Class A shares on a pro rata basis. See "Dividends, Distributions and Taxes."

RISK FACTORS AND SPECIAL CONSIDERATIONS There can be no assurance that the Fund will achieve its investment objective. Assets of the Fund may be invested in the municipal securities of non-Arizona municipal issuers. Dividends paid by the Fund which are derived from interest attributable to Arizona Municipal Securities will be excluded from gross income for Federal income tax purposes and exempt from Arizona state personal income taxes (but not from Arizona state franchise tax or Arizona state corporate income tax). Dividends derived from interest on obligations of non-Arizona municipal issuers will be exempt from Federal income taxes, but may be subject to Arizona state personal income taxes. Dividends derived from certain municipal securities (including Arizona Municipal Securities), however, may be a specific tax item for Federal alternative minimum tax purposes. The Fund may invest without limit in securities subject to the Federal alternative minimum tax. See "Investment Objective and Management Policies" and "Dividends, Distributions and Taxes."

PROSPECTUS SUMMARY (CONTINUED)

The Fund is more susceptible to factors adversely affecting issuers of Ari zona municipal securities than is a municipal bond fund that does not emphasize these issuers. See "Arizona Municipal Securities" in the Prospectus and "Special Considerations Relating to Arizona Municipal Securities" in the Statement of Additional Information for further details about the risks of investing in Arizona obligations.

There are several risks in connection with the use of certain portfolio strategies by the Fund, such as the use of when-issued securities, puts, stand by commitments, municipal leases, financial futures contracts and related put and call options and options on debt securities and securities indices. See "Investment Objective and Management Policies--Certain Portfolio Strategies."

THE FUND'S EXPENSES The following expense table lists the costs and expenses an investor will incur either directly or indirectly as a shareholder of the Fund, based on the maximum sales charge or maximum CDSC that may be incurred at the time of purchase or redemption and, unless otherwise noted, the Fund's operating expenses for its most recent fiscal year:

	CLASS A	CLASS B	CLASS C	CLASS Y
SHAREHOLDER TRANSACTION EXPENSES				
Maximum sales charge imposed on purchases (as a percentage of offering price)	4.00%	None	None	None
Maximum CDSC (as a percentage of original cost or redemption proceeds, whichever is lower)	None*	4.50%	1.00%	None
ANNUAL FUND OPERATING EXPENSES (as a percentage of average net assets)				
Management fees (net of fee waivers)	0.37%	0.37%	0.37%	0.37%
12b-1 fees**	0.15%	0.65%	0.70%	None
Other expenses***	0.30%	0.31%	0.31%	0.30%
TOTAL FUND OPERATING EXPENSES	0.82%	1.33%	1.38%	0.67%

* Purchases of Class A shares which, when combined with current holdings of Class A shares offered with a sales charge, equal or exceed $500,000 in the aggregate, will be made at net asset value with no sales charge, but will be subject to a CDSC of 1.00% on redemptions made within 12 months.

** Upon conversion of Class B shares to Class A shares, such shares will no longer be subject to a distribution fee. Class C shares do not have a con version feature and, therefore, are subject to an ongoing distribution fee. As a result, long-term shareholders of Class C shares may pay more than the economic equivalent of the maximum frontend sales charge permitted by the National Association of Securities Dealers, Inc.

*** For Class Y shares, "Other expenses" have been estimated based on expenses incurred by Class A shares because no Class Y shares had been sold as of May 31, 1995.

The sales charge and CDSC set forth in the above table are the maximum charges imposed on purchases or redemptions of Fund shares and investors may actually pay lower or no charges depending on the amount purchased and, in the case of Class B, Class C and certain Class A shares, the length of time the shares are held. See "Purchase of Shares" and "Redemption of Shares." Smith Barney receives an annual 12b-1 fee of 0.15% of the value of average daily net assets of Class A shares. Smith Barney also receives, with respect to Class B shares, an annual 12b-1 fee of 0.65% of the value of average daily assets of that Class, consisting of a 0.50% distribution fee and a 0.15% service fee. For Class C shares, Smith Barney receives an annual 12b-1 fee of 0.70% of the value of average daily net assets of the Class, consisting of a 0.55% distribution fee and a 0.15% service fee. "Other expenses" in the above table include fees for shareholder services, custodial fees, legal and accounting fees, printing costs and registration fees.

During the fiscal year ended May 31, 1995, SBMFM waived investment advisory fees and administrative fees in an amount equal to 0.12% and 0.07%, respectively, of the Fund's average daily net assets. This had the effect of lowering the Fund's overall expenses and increasing the returns otherwise available to investors. If the fees had not been waived, the Fund's total operating expenses for the fiscal year ended May 31, 1995, as a percentage of its average daily net assets, would have been 1.01% for Class A shares, 1.52% for Class B shares and 1.56% for Class C shares.

The following example is intended to assist an investor in understanding the various costs that an investor in the Fund will bear directly or indirectly. The example assumes payment by the Fund of operating expenses at the levels set forth in the table above. See "Purchase of Shares," "Redemption of Shares" and "Management of the Fund."

<TABLE>
<CAPTION>

EXAMPLE	1 YEAR	3 YEARS	5 YEARS	10 YEARS*
An investor would pay the following expenses on a $1,000 investment, assuming (1) 5.00% annual return and (2) redemption at the end of each time period:				
Class A	$48	$65	$84	$137
Class B	59	72	83	160
Class C	24	44	76	166
Class Y	7	21	37	83

</TABLE>

<TABLE>
<CAPTION>

EXAMPLE	1 YEAR	3 YEARS	5 YEARS	10 YEARS*
An investor would pay the following expenses on the same investment, assuming the same annual return and no redemption:				
Class A	$48	$65	$84	$137
Class B	14	42	73	160
Class C	14	44	76	166
Class Y	7	21	37	83

</TABLE>

* Ten-year figures assume conversion of Class B shares to Class A shares at

the
end of the eighth year following the date of purchase

The example also provides a means for the investor to compare expense levels of funds with different fee structures over varying investment periods. To facilitate such comparison, all funds are required to utilize a 5.00% annual return assumption. However, the Fund's actual return will vary and may be greater or less than 5.00%. THIS EXAMPLE SHOULD NOT BE CONSIDERED A REPRESENTA TION OF PAST OR FUTURE EXPENSES AND ACTUAL EXPENSES MAY BE GREATER OR LESS THAN THOSE SHOWN.

FINANCIAL HIGHLIGHTS

The following information for fiscal year ended May 31, 1995 has been audited by KPMG Peat Marwick LLP, independent accountants, whose report thereon appears in the Fund's Annual Report dated May 31, 1995. The following information for the fiscal years ending May 31, 1990 through May 31, 1994 has been audited by Coopers & Lybrand L.L.P. The following information for the fiscal years ended May 31, 1988 and May 31, 1989 has been audited by Arthur Andersen & Co. This information should be read in conjunction with the financial statements and related notes that also appear in the Fund's Annual Report, which is incorporated by reference into the Statement of Additional Information.

SMITH BARNEY
Arizona Municipals Fund Inc.

FINANCIAL HIGHLIGHTS (CONTINUED)

FOR A CLASS A SHARE OUTSTANDING THROUGHOUT EACH YEAR:

<TABLE>
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	YEAR ENDED 5/31/95	YEAR ENDED 5/31/94#	YEAR ENDED 5/31/93	YEAR ENDED 5/31/92
<S>	<C>	<C>	<C>	<C>
NET ASSET VALUE, BEGINNING OF YEAR	$ 9.82	$ 10.40	$ 9.84	$ 9.63
INCOME FROM INVESTMENT OPERATIONS:				
Net Investment Income+	0.54	0.54	0.58	0.59
Net Realized and Unrealized Gain/(Loss)				

on Investments 0.33 (0.38) 0.65
0.32 ---
- ---------TOTAL FROM INVESTMENT OPERATIONS 0.87 0.16 1.23
0.91 ---
- ---------LESS DISTRIBUTIONS:
Dividends from Net Investment Income (0.52) (0.52) (0.57)
(0.60)
Distributions in Excess of Net Invest-
ment Income (0.02) (0.01) --
- -
- -
Distributions from Net Realized Capital
Gains (0.06) (0.21) (0.08)
(0.06)
Distributions in Excess of Net Realized
Capital Gains (0.00)** -- --
- -
- -
Distributions from Capital -- -- (0.02)
(0.04) ---
- -----------TOTAL DISTRIBUTIONS (0.60) (0.74) (0.67)
(0.70) ---
- -----------NET ASSET VALUE, END OF YEAR $10.09 $9.82
$10.40
$9.84 --
- ----------TOTAL RETURN++ 9.38% 1.33% 12.92%
9.86% --
- ----------RATIOS TO AVERAGE NET
ASSETS/SUPPLEMENTAL DATA:
Net Assets End of Year (in 000's) $43,222 $44,552 $44,055
$38,759
Ratio of Operating Expenses to Average
Net Assets+++ 0.82% 0.83% 0.77%
0.68%
Ratio of Net Investment Income to Aver-
age Net Assets 5.37% 5.24% 5.66%
6.02% --
- ----------PORTFOLIO TURNOVER RATE 21% 49%
44%
44% --
- ---------</TABLE>

* The Fund commenced operations on June 1, 1987. Any shares outstanding prior
to November 6, 1992 were designated as Class A shares.
** Amount represents less than $0.01 per share.
+ Net investment income before voluntary waiver of fees and/or reimbursement
of expenses by affiliates for the years ended May 31, 1995, 1994,
1993, 1992, 1991, 1990, 1989 and 1988 were $0.50, $0.52, $0.54,
$0.57, $0.58, $0.51, $0.16 and $0.27, respectively.

++ Total return represents aggregate total return for the years indicated and does not reflect any applicable sales charge.

+++ Annualized expense ratios before voluntary waiver of fees and/or reimbursement of expenses by affiliates for the years ended May 31, 1995, 1994, 1993, 1992, 1991, 1990, 1989 and 1988 were 1.01%, 1.05%, 1.10%, 0.90%, 1.13%, 2.13%, 6.20% and 2.58%, respectively.

The per share amounts have been calculated using the monthly average shares method, which more appropriately presents per share data for this period since use of the undistributed net investment income method did not accord with results of operations.

SMITH BARNEY
Arizona Municipals Fund Inc.

FINANCIAL HIGHLIGHTS (CONTINUED)

FOR A CLASS A SHARE OUTSTANDING THROUGHOUT EACH YEAR:
<TABLE>
<CAPTION>

	YEAR ENDED 5/31/91	YEAR ENDED 5/31/90	YEAR ENDED 5/31/89	5/31/88*
NET ASSET VALUE, BEGINNING OF YEAR	$ 9.49	$ 9.66	$ 9.22	$ 9.60
INCOME FROM INVESTMENT OPERATIONS:				
Net Investment Income+	0.68	0.71	0.82	0.40
Net Realized and Unrealized Gain/(Loss) on Investments	0.14	(0.12)	0.31	(0.19)
TOTAL FROM INVESTMENT OPERATIONS	0.82	0.59	1.13	0.21
LESS DISTRIBUTIONS:				
Dividends from Net Investment Income	(0.68)	(0.71)	(0.69)	(0.40)
Distributions in Excess of Net Investment				

Income -- -- --
(0.19)
Distributions from Net Realized Capital
Gains -- (0.05) --
- -
- -
Distributions in Excess of Net Realized
Capital Gains -- -- --
- -
- -
Distributions from Capital -- -- --
-

- --
- ----TOTAL DISTRIBUTIONS (0.68) (0.76) (0.69)
(0.59) --
- -----------NET ASSET VALUE, END OF YEAR $9.63 $9.49 $9.66
$9.22 ---
- ----------TOTAL RETURN++ 8.92% 6.31% 12.70%
2.32% ---
- ----------RATIOS TO AVERAGE NET ASSETS/SUPPLEMENTAL
DATA:
Net Assets End of Year (in 000's) $28,373 $18,167 $4,903
$1,626
Ratio of Operating Expenses to Average Net
Assets+++ 0.14% 0.03% 0.34%
0.16%
Ratio of Net Investment Income to Average
Net Assets 7.06% 7.34% 7.23%
3.95% ---
- ----------PORTFOLIO TURNOVER RATE 49% 86%
63%
53% ---
- --------</TABLE>

* The Fund commenced operations on June 1, 1987. Any shares outstanding prior
to November 6, 1992 were designated as Class A shares.
** Amount represents less than $0.01 per share.
+ Net investment income before voluntary waiver of fees and/or reimbursement
of expenses by affiliates for the years ended May 31, 1995, 1994, 1993, 1992, 1991, 1990, 1989 and 1988 were $0.50, $0.52, $0.54, $0.57, $0.58, $0.51, $0.16 and $0.27, respectively.
++ Total return represents aggregate total return for the years indicated and does not reflect any applicable sales charge.
+++ Annualized expense ratios before voluntary waiver of fees and/or reimbursement of expenses by affiliates for the years ended May 31, 1995, 1994, 1993, 1992, 1991, 1990, 1989 and 1988 were 1.01%, 1.05%,
1.10%, 0.90%, 1.13%,

2.13%, 6.20% and 2.58%, respectively.

The per share amounts have been calculated using the monthly average shares method, which more appropriately presents per share data for this period since use of the undistributed net investment income method did not accord with results of operations.

SMITH BARNEY
Arizona Municipals Fund Inc.

FINANCIAL HIGHLIGHTS (CONTINUED)

FOR A CLASS B SHARE OUTSTANDING THROUGHOUT EACH YEAR:

<TABLE>
<CAPTION>

<S>	<C> YEAR ENDED 5/31/95	<C> YEAR ENDED 5/31/94#	<C> PERIOD ENDED 5/31/93*
NET ASSET VALUE BEGINNING OF YEAR	$ 9.82	$ 10.40	$ 9.97
INCOME FROM INVESTMENT OPERATIONS:			
Net Investment Income+	0.49	0.49	0.31
Net Realized and Unrealized Gain/(Loss) on Investments	0.33	(0.37)	0.50
TOTAL FROM INVESTMENT OPERATIONS	0.82	0.12	0.81
LESS DISTRIBUTIONS:			
Dividends from Net Investment Income	(0.47)	(0.48)	(0.29)
Distributions in Excess of Net Investment Income	(0.02)	(0.01)	--
Distributions from Net Realized Capital Gains	(0.06)	(0.21)	(0.08)
Distributions in Excess of Net Realized Capital Gains	(0.00)##	--	--
Distributions from Capital	--	--	(0.01)
TOTAL DISTRIBUTIONS	(0.55)	(0.70)	(0.38)
NET ASSET VALUE, END OF YEAR	$10.09	$9.82	$10.40

- ---
TOTAL RETURN++ 8.78%
0.84%
8.31% ---
- ---------RATIOS TO AVERAGE NET ASSETS/SUPPLEMENTAL
DATA:
Net Assets, End of Year (in 000's) $22,838 $19,306
$8,149
Ratio of Operating Expenses to Average Net
Assets+++ 1.33% 1.35%
1.33%**
Ratio of Net Investment Income to Average Net
Assets 4.85% 4.73%
5.10%** ---
- -----------PORTFOLIO TURNOVER RATE 21%
49%
44% ---
- -------</TABLE>

* The Fund commenced selling Class B shares on November 6, 1992.
** Annualized.
\+ Net investment income before voluntary waiver of fees and/or reimbursement of expenses by affiliates for the years ended May 31, 1995, 1994, and the period ended May 31, 1993 were $0.46, $0.47 and $0.29, respectively.
++ Total return represents aggregate total return for the periods indicated and does not reflect any applicable sales charge.
+++ Annualized expense ratios before voluntary waiver of fees and/or reimbursement of expenses by affiliates for the years ended May 31, 1995, 1994, and for the period ended May 31, 1993 were 1.52%, 1.57% and 1.66%, respectively.
# Per share amounts have been calculated using the monthly average shares method, which more appropriately presents per share data for this period since use of the undistributed net investment income method did not accord with results of operations.
Amount represents less than $0.01 per share.

FINANCIAL HIGHLIGHTS (CONTINUED)

FOR A CLASS C SHARE OUTSTANDING THROUGHOUT THE PERIOD:

<TABLE>
<CAPTION>

PERIOD
ENDED
5/31/95* --------
- ---
<S> <C>
NET ASSET VALUE, BEGINNING OF PERIOD $ 9.28
- --
INCOME FROM INVESTMENT OPERATIONS:
Net investment income+ 0.24
Net realized and unrealized gain on
investments
0.86
- ---
- ---TOTAL FROM INVESTMENT OPERATIONS
1.10 ---
- --------LESS DISTRIBUTIONS:
Distributions from net investment income
(0.22)
Distributions in excess of net investment income
(0.01)
Distributions from net realized capital gains
(0.06)
Distributions in excess of net realized capital gains
(0.00)#
Distributions from capital
- ---
- ----TOTAL DISTRIBUTIONS
(0.29) --
- ----------NET ASSET VALUE, END OF PERIOD
$10.09 --
- ----------TOTAL RETURN++
12.10% --
- ----------RATIOS TO AVERAGE NET ASSETS/SUPPLEMENTAL DATA:
Net assets, end of period (in 000's)
$386
Ratio of operating expenses to average net assets+++
1.38%**
Ratio of net investment income to average net assets
4.81%** ---
- ------------PORTFOLIO TURNOVER RATE
21% ---
- -------
- -</TABLE>
* The Fund commenced selling Class C shares on December 8,
1994.
** Annualized.
+ Net investment income before voluntary waiver of fees by affiliates
for
the
period ended May 31, 1995 was $0.23.
++ Total return represents aggregate total return for the period

indicated and does not reflect any applicable sales charge.

+++ Annualized expense ratios before voluntary waiver of fees by affiliates for the period ended May 31, 1995 was 1.56%.

Amount represents less than $0.01 per share.

As of May 31, 1995, no Class Y shares had been sold.

INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES

The investment objective of the Fund is to provide Arizona investors the maximum amount of income exempt from Federal and Arizona state income taxes as is consistent with the preservation of capital. The Fund attempts to achieve its objective by investing primarily in debt securities, the interest on which is excluded from gross income for Federal income tax purposes and which is exempt from Arizona state income taxes. The Fund may purchase and sell financial futures contracts, and options thereon, and may purchase and sell options on debt securities and securities indices. This investment objective may not be changed without the approval of the holders of a majority of the Fund's outstanding shares. There can be no assurance that the Fund's investment objective will be achieved.

The Fund will operate subject to an investment policy providing that, under normal market conditions, the Fund will invest at least 80% of its net assets in Arizona Municipal Securities. The Fund may invest up to 20% of its net assets in municipal securities of non-Arizona municipal issuers, the interest on which is excluded from gross income for Federal income tax purposes (not including the possible applicability of a Federal alternative minimum tax). For temporary defensive purposes, the Fund may invest without limit in nonArizona municipal issuers and in "Temporary Investments" as described below. The Fund's investments in Arizona Municipal Securities are limited to securities of "investment grade" quality, that is, securities rated within the four highest categories of Moody's Investors Service, Inc. ("Moody's") (Aaa, Aa, A, Baa) or Standard & Poor's Corporation ("S&P") (AAA, AA, A, BBB), except that the Fund may purchase unrated Arizona Municipal Securities (a) where the securities are guaranteed as to principal and interest by the full faith and credit of the United States government or are short-term municipal securities (those having a maturity of less than one year) of issuers having outstanding at the time of purchase an issue of municipal bonds having one of the four highest ratings or (b) where, in the opinion of SBMFM, the unrated municipal securities are comparable in quality to those within the four highest ratings. However, the Fund will not purchase an unrated municipal security (other than a security described in (a) above) if, after such purchase, more than 20% of the Fund's total assets would be invested in unrated municipal securities. Securities in the fourth highest rating category, though considered to be investment grade, have speculative characteristics. A description of the rating systems of S&P and Moody's is contained in the Appendix to the Statement of Additional Information.

INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES (CONTINUED)

The Fund's average weighted maturity will vary from time to time based on
the judgment of SBMFM. The Fund intends to focus on intermediate- and long term
obligations, that is, obligations with remaining maturities at the time of pur chase of from three to in excess of twenty years. Obligations which are rated Baa by Moody's or BBB by S&P and those which are rated lower than investment grade are subject to greater market fluctuation and more uncertainty as to pay ment of principal and interest, and therefore generate higher yields than obli gations rated above Baa or BBB.

Municipal bonds are debt obligations which generally have a maturity at the time of issue in excess of one year and are issued to obtain funds for various public purposes. The two principal classifications of municipal bonds are "general obligation" and "revenue" bonds. General obligation bonds are secured by the issuer's pledge of its full faith, credit and taxing power for the payment of principal and interest. Revenue bonds are payable from the revenues derived from a particular facility or class of facilities, or, in some cases, from the proceeds of a special excise tax or specific revenue source but not from the general taxing power. Private activity bonds issued by or on behalf of public authorities to obtain funds for privately operated facilities are in most cases revenue bonds which do not generally carry the pledge of the full faith and credit of the issuer of such bonds, but depend for payment on the ability of the industrial user to meet its obligations (or any property pledged as security).

The Fund may invest without limit in private activity bonds which can be classified as Arizona Municipal Securities. Interest income on certain types of private activity bonds issued after August 7, 1986 to finance non governmental activities is a specific tax preference item for purposes of the Federal individual and corporate alternative minimum taxes. Individual and corporate shareholders may be subject to a Federal alternative minimum tax to the extent the Fund's dividends are derived from interest on these bonds. Dividends derived from interest income on Arizona Municipal Securities are a component of the "current earnings" adjustment item for purposes of the Federal corporate alternative minimum tax.

The Fund may invest without limit in debt obligations that are repayable out of revenue streams generated from economically related projects or facilities. Sizeable investments in such obligations could involve an increased risk to the Fund should any of the related projects or facilities experience financial difficulties.

The Fund may invest without limit in "municipal leases," which are obliga tions issued by state and local governments or authorities to finance the acquisition of equipment or facilities. Although lease obligations do not con stitute general obligations of the municipality for which the municipality's taxing power is pledged, a lease obligation is ordinarily backed by the municipality's covenant to budget for, appropriate and make the payments due under the lease obligation. However, certain lease obligations contain "non appropriation" clauses which provide that the municipality has no obligation to make lease or installment purchase payments in future years unless money is appropriated for such purpose on a yearly basis. In addition to the "nonappropriation" risk, these securities represent a relatively new type of financing that has not yet developed the depth of marketability associated with more conventional bonds. Although "non-appropriation" lease obligations are often secured by the underlying property, disposition of the property in the event of foreclosure might prove difficult. In evaluating municipal lease obligations, SBMFM will consider such factors as it deems appropriate, which may include: (a) whether the lease can be canceled; (b) the ability of the lease obligee to direct the sale of the underlying assets; (c) the general creditworthiness of the lease obligor; (d) the likelihood that the municipality will discontinue appropriating funding for the leased property in the event such property is no longer considered essential by the municipality; (e) the legal recourse of the lease obligee in the event of such a failure to appropriate funding; (f) whether the security is backed by a credit enhancement such as insurance; and (g) any limitations which are imposed on the lease obligor's ability to utilize substitute property or services rather than those covered by the lease obligation.

The value of the Fund's portfolio securities, and therefore its net asset value per share, may fluctuate due to various factors, including fluctuations in interest rates generally, as well as changes in the ability of issuers of municipal securities to pay interest and principal. The Fund's portfolio will be actively managed in pursuit of its objective, and therefore may have higher portfolio turnover than that of other funds with similar objectives. A high portfolio turnover rate may cause the Fund to incur additional expenses. Portfolio turnover may result in the realization of net gains, which are not taxexempt when distributed to shareholders. There are no percentage limitations on the Fund's investments in municipal bonds within particular rating classifications. Therefore, the Fund may invest its entire portfolio in securities rated as "medium grade" obligations. According to

Moody's, medium grade bonds "lack outstanding investment characteristics and in fact have speculative characteristics as well." Also, the Fund may invest without limit in municipal bonds with similar risk characteristics (e.g., obligors located in the same geographic region or engaged in similar businesses).

From time to time, proposed legislation restricting or eliminating the Fed eral tax-exempt status of issues of municipal securities has been introduced before Congress. Legislative developments may affect the value of the portfolio securities of the Fund and therefore the value of the Fund's shares, as well as the tax-exempt status of dividends. The Fund will monitor the progress of any such proposals to determine what, if any, defensive action may be taken, if any legislation which would have a material adverse effect on the ability of the Fund to pursue its objective were adopted, the investment objective and policies of the Fund would be reconsidered by the Board of Directors.

A more detailed explanation of the Fund's investments, together with certain investment restrictions which the Fund has adopted and which cannot be changed without the majority vote of the outstanding shares of the Fund, is discussed below and in the Statement of Additional Information.

Special Considerations Relating to Arizona Municipal Securities. Because the Fund concentrates its investments in Arizona Municipal Securities, the Fund is more susceptible to factors adversely affecting Arizona issuers than is a municipal bond fund that is not concentrated in these issuers to this degree. Investors should realize the risks associated with an investment in such secu rities.

Arizona local governmental entities are subject to certain limitations on their ability to assess taxes and levies which could affect their ability to meet their financial obligations. If either Arizona or any of its local govern mental entities is unable to meet its financial obligations, the income derived by the Fund, the ability to preserve or realize appreciation of the Fund's capital, and the Fund's liquidity could be adversely affected.

Additional financial considerations relating to the risks associated with investing in Arizona Municipal Securities are summarized in the Statement of Additional Information.

CERTAIN PORTFOLIO STRATEGIES

In attempting to achieve its investment objective, the Fund may employ, among others, the following investment techniques:

When-Issued Securities: New issues of Arizona Municipal Securities (and other tax-exempt obligations) frequently are offered on a when-issued basis, which means that delivery and payment for such securities normally take place 15 to 45 days after the date of the commitment to purchase. The payment obligation and interest rate that will be received on when-issued securities are fixed at the time the buyer enters into the commitment. Arizona Municipal Securities, like other investments made by the Fund, may decline or appreciate in value before their actual delivery to the Fund. Due to the fluctuations in the value of securities purchased and sold on a whenissued basis, the yields obtained on these securities may be higher or lower than the yields available in the market on the date when the instruments actually are delivered to the buyers. The Fund will not accrue income with respect to a when-issued security prior to its stated delivery date. The Fund will establish a segregated account with the Fund's custodian consisting of cash, obligations issued or guaranteed by the United States government, its agencies or instrumentalities ("U.S. government securities") or other high grade debt obligations in an amount equal to the purchase price of the when issued securities. Placing securities rather than cash in the segregated account may have a leveraging effect on the Fund's net assets. The Fund generally will make commitments to purchase Arizona Municipal Securities (and other tax-exempt obligations) on a when-issued basis only with the intention of actually acquiring the securities, but the Fund may sell the securities before the delivery date if it is deemed advisable.

Puts or Stand-by Commitments. The Fund may purchase municipal securities together with the right (a "put" or "stand-by commitment") to resell the secu rities to the seller at an agreed-upon price or yield within a specified period prior to the maturity date of the securities. The Fund uses puts for liquidity purposes (i.e., to provide a ready market for its municipal securities to meet cash needs).

Temporary Investments. Under normal market conditions, the Fund may hold up to 20% of its total assets in cash or money market instruments, including tax able money market instruments ("Temporary Investments"). In addition, when SBMFM believes that market conditions warrant, including when acceptable Ari zona Municipal Securities are unavailable, the Fund may take
a tempo-

rary defensive posture and invest without limitation in Temporary Investments. Tax-exempt securities eligible for short-term investment by the Fund under such circumstances are municipal notes rated at the time of purchase within the two highest grades by Moody's or S&P or, if not rated, issued by issuers with outstanding debt securities rated within the two highest grades by Moody's or S&P. To the extent the Fund holds Temporary Investments, it may not achieve its investment objective.

The Fund also may invest for the same purpose in taxable fixed-income obliga tions. Temporary taxable investments of the Fund may consist of U.S. government securities, commercial paper rated A-1 by S&P or Prime-1 by Moody's, corporate obligations rated AAA or AA by S&P or Aaa or Aa by Moody's, certificates of
deposit or bankers' acceptances of domestic banks or thrift institutions with at least $1 billion in assets, or repurchase agreements with certain
banks and dealers. SBMFM considers the value of the collateral and the creditworthiness of banks and broker-dealers with which the Fund enters into repurchase agreements. Repurchase agreements may be entered into with respect to any securities eligible for investment by the Fund, including Arizona Municipal Securities. The income from a repurchase agreement with respect to a municipal security would not be tax exempt. Since the commencement of its

operations, the Fund has not found it necessary to make taxable Temporary Investments.

See the Statement of Additional Information for a further description of short-term municipal and taxable investments and the Moody's and S&P ratings.

Financial Futures Contracts and Related Options. The Fund may purchase and sell financial futures contracts and related options. Financial futures con tracts are commodities contracts which obligate the long or short holder to take or make delivery at a future date of a specified quantity of a financial instrument such as Treasury bonds or bills (although they generally are settled in cash) or the cash value of a securities index. A "sale" of a futures contract means the undertaking of a contractual obligation to deliver the securities or the index value called for by the contract at a specified price on a specified date. A "purchase" of a futures contract means the acquisition of a contractual obligation to acquire the securities or cash value of an index at a specified price on a specified date. Currently, futures contracts are available on several types of fixedincome securities including Treasury bonds, notes and bills, commercial paper and certificates of deposit, as well as municipal bond indices.

The Fund will engage in financial futures transactions as a hedge against the effects of fluctuating interest rates and other market conditions. For example, if the Fund owned long-term bonds, and interest rates were expected to rise, it could sell futures contracts ("short hedge") which would have much the same effect as selling some of the long-term bonds that it owned. If interest rates did increase, the value of the debt securities in the portfolio would decline, but the value of the Fund's futures contracts should increase, thus keeping the net asset value of the Fund from declining as much as it otherwise would have.

If the Fund anticipated a decline in long-term interest rates, the Fund could hold short-term municipal securities and benefit from the income earned by holding such securities while purchasing futures contracts ("long hedge") in an attempt to gain the benefit of rising long-term bond prices, because the value of the futures contracts should rise with the long-term bonds. In so doing, the Fund could take advantage of the anticipated rise in the value of long-term bonds without actually buying them.

The Fund could accomplish similar results by selling bonds with long maturi ties and investing in bonds with short maturities when interest rates are expected to rise or by buying bonds with long maturities and selling bonds with short maturities when interest rates are expected to decline. However, by using futures contracts, the Fund could accomplish the same results more easily and more quickly due to the generally greater liquidity in the financial futures markets than in the municipal securities markets.

The Fund also may purchase and write call and put options on financial futures contracts. An option on a futures contract gives the purchaser the right, in return for the premium paid, to assume a position in a futures con tract at a specified exercise price at any time during the period of the option. Upon exercise, the writer of the option delivers to the holder the futures position together with the accumulated balance in the writer's futures margin account (the amount by which the market price of the futures contract varies from the exercise price). The Fund will be required to deposit or pay initial margin and maintenance margin with respect to put and call options on futures contracts written by it.
The Fund also may purchase and write call and put options on securities indi ces. Options on indices are similar to options on securities except that set tlement is made in cash. No physical delivery of the underlying securities in the

index is made. Unlike options on specific securities, gain or loss depends on the price movements in the securities included in the index rather than price movements in individual securities. When the Fund writes an option on a securi ties index, it will be required to deposit and maintain with a custodian port folio securities equal in value to 100% of the exercise price in the case of a put, or the contract value in the case of a call. In addition, when the con tract value of a call option written by the Fund exceeds the exercise price, the Fund will segregate cash or cash equivalents equal in value to such excess.

Regulations of the Commodity Futures Trading Commission applicable to the Fund require that its transactions in financial futures contracts and options on financial futures contracts be engaged in for bona fide hedging purposes, or if the Fund enters into futures contracts for speculative purposes, that the aggregate initial margin deposits and premiums paid by the Fund will not exceed 5% of the market value of its assets. In addition, the Fund will, with respect to its purchases of financial futures contracts, establish a segregated account consisting of cash or cash equivalents in an amount equal to the total market value of the futures contracts, less the amount of initial margin on deposit for the contracts. The Fund's ability to trade in financial futures contracts and options on financial futures contracts may be limited to some extent by the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), applicable to a regulated investment company that are described below under "Dividends, Distributions and Taxes."

There are certain risks associated with the use of futures contracts and related options. There is no assurance that the Fund will be able to close out its futures positions at any time, in which case it would be required to main tain the margin deposits on the contract. The costs incurred in connection with futures transactions could reduce the Fund's yield. There can be no assurance that hedging transactions will be successful, as they depend upon SBMFM' ability to predict changes in interest rates. Furthermore, there may be an imperfect correlation (or no correlation) between the price movements of the futures contracts and price movements of the Fund's portfolio securities being hedged. This lack of correlation could result from differences between the securities being hedged and the securities underlying the futures contracts in interest rate levels, maturities and creditworthiness of issuers, as well as from variations in speculative market demand for futures contracts and debt securities. Where futures contracts are purchased to hedge against an increase in the price of long-term securities, but the long-term market declines and the Fund does not invest in

long-term securities, the Fund would realize a loss on the futures contracts, which would not be offset by a reduction in the price of the securities pur chased. Where futures contracts are sold to hedge against a decline in the value of long-term securities in the Fund's portfolio, but the long-term market advances, the Fund would lose part or all of the benefit of the advance due to offsetting losses in its futures positions. Options on futures contracts and index options involve risks similar to those risks relating to transactions in financial futures contracts, described above. The use of futures contracts and related options may be expected to result in taxable income to the Fund and its shareholders.

Options on Debt Securities. In connection with its hedging activities, the Fund may purchase and sell put and call options on debt securities on national securities exchanges. The Fund proposes to purchase put options as a defensive measure to minimize the impact of market price declines on the value of certain of the securities in the Fund's portfolio. The Fund may write listed call options only if the calls are "covered" throughout the life of the option. A call is "covered" if the Fund owns the optioned securities or maintains in a segregated account with the Fund's custodian cash or cash equivalents or U.S. government securities with a value sufficient to meet its obligations under the call. When the Fund writes a call, it receives a premium and gives the purchaser the right to buy the underlying security at any time during the call period (usually not more than fifteen months) at a fixed exercise price regardless of market price changes during the call period. If the call is exercised, the Fund would forego any gain from an increase in the market price of the underlying security over the exercise price. The Fund may purchase a call on securities only to effect a "closing purchase transaction," which is the purchase of a call covering the same underlying security, and having the same exercise price and expiration date as a call previously written by the Fund on which it wishes to terminate its obligations.

The Fund also may write and purchase put options ("puts"). When the Fund writes a put, it receives a premium and gives the purchaser of the put the right to sell the underlying security to the Fund at the exercise price at any time during the option period. When the Fund purchases a put, it pays a premium in return for the right to sell the underlying security at the exercise price at any time during the option period. If any put is not exercised or sold, it will become worthless on its expiration date. The Fund will not purchase puts if more than 10% of its net assets would be invested in premiums on puts.

The Fund may write puts only if the puts are "secured." A put is "secured" if the Fund maintains cash, cash equivalents or U.S. government securities with a value equal to the exercise price in a segregated account or holds a

put on the same underlying security at an equal or greater exercise price. The aggregate value of the obligations underlying puts written by the Fund
will not exceed 50% of its net assets. The Fund also may write "straddles," which are combinations of secured puts and covered calls on the same underlying security.

The Fund will realize a gain (or loss) on a closing purchase transaction with respect to a call or put previously written by the Fund if the premium, plus commission costs, paid to purchase the call or put is less (or greater) than the premium, less commission costs, received on the sale of the call or put. A gain also will be realized if a call or put which the Fund has written lapses unexercised, because the Fund would retain the premium.

The Fund's option positions may be closed out only on an exchange which pro vides a secondary market for options of the same series, but there can be no assurance that a liquid secondary market will exist at a given time for any particular option. In this regard, trading in options on U.S. government secu rities is relatively new, so that it is impossible to predict to what extent liquid markets will develop or continue. The use of options may be expected to result in taxable income to the Fund.

INVESTMENT RESTRICTIONS

The Fund has adopted certain fundamental investment restrictions for the pro tection of shareholders. These restrictions cannot be changed without the approval of the holders of a majority of the Fund's outstanding voting securi ties. Some of the fundamental restrictions applicable to the Fund prohibit the Fund from: (a) with respect to 75% of the value of its total assets, investing more than 5% of the Fund's total assets in any one issuer (except U.S. government securities), (b) borrowing money (except from banks for temporary or emergency purposes in an amount up to 10% of the Fund's total assets (including the amount borrowed) valued at market less liabilities (not including the amount borrowed)) and (c) concentrating in the securities of issuers in a particular industry. Further information about the Fund's investment policies, including certain other investment restrictions adopted by the Fund, is described in the Statement of Additional Information.

VALUATION OF SHARES

The Fund's net asset value per share is determined as of the close of regular trading on the NYSE, on each day that the NYSE is open, by dividing the value of the Fund's net assets attributable to each Class by the total number of shares of that class outstanding.

Generally, the Fund's investments are valued at market value or, in the absence of a market value with respect to any securities, at fair value as determined by or under the direction of the Fund's Board of Directors. Certain securities may be valued on the basis of prices provided by pricing services approved by the Board of Directors. Short-term investments that mature in 60 days or less are valued at amortized cost whenever the Directors determine that amortized cost is fair value. Amortized cost valuation involves valuing an instrument at its cost initially and, thereafter, assuming a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the instrument. Further information regarding the Fund's valuation policies is contained in the Statement of Additional Information.

DIVIDENDS, DISTRIBUTIONS AND TAXES

DIVIDENDS AND DISTRIBUTIONS

The Fund pays dividends from its net investment income (that is, income other than its net realized long and short-term capital gains) on the last Friday of each calendar month to shareholders of record as of the preceding Tuesday. Distributions of net realized long- and short-term capital gains, if any, are declared and paid annually after the end of the fiscal year in which they have been earned.

If a shareholder does not otherwise instruct, dividends and capital gains distributions will be reinvested automatically in additional shares of the same Class at net asset value, subject to no sales charge or CDSC. In order to avoid the application of a 4% nondeductible excise tax on certain undistributed amounts of ordinary income and capital gains, the Fund may make an additional distribution shortly before December 31 of each year of any undistributed ordi nary income or capital gains and expects to pay any other distributions as are necessary to avoid the application of this tax.

DIVIDENDS, DISTRIBUTIONS AND TAXES (CONTINUED)

If, for any full fiscal year, the Fund's total distributions exceed net investment income and net realized capital gains, the excess distributions may be treated as a tax-free return of capital (up to the amount of the sharehold er's tax basis in his or her shares). The amount treated as a taxfree return of capital will reduce a shareholder's adjusted basis in his or her shares. Pursuant to the requirements of the 1940 Act and other applicable laws, a notice will accompany any distribution paid from sources other than net invest ment income. In the event the Fund distributes amounts in excess of its net investment income and net realized capital gains, such distributions may have the effect of decreasing the Fund's total assets, which may increase the Fund's expense ratio.

The per share dividends on Class B and Class C shares may be lower than the per share dividends on Class A and Class Y shares principally as a result of the distribution fee applicable with respect to Class B and Class C shares.
The per share dividends on Class A shares of the Fund may be lower than the per share dividends on Class Y shares principally as a result of the service fee applicable to Class A shares. Distributions of capital gains, if any, will be in the same amount for Class A, B, C and Y shares.

TAXES

The Fund has qualified and intends to continue to qualify each year as a reg ulated investment company under the Code and will designate and pay exempt interest dividends derived from interest earned on qualifying tax exempt obli gations. Such exempt-interest dividends may be excluded by shareholders from their gross income for Federal income tax purposes although (a) all or a por tion of such exempt-interest dividends will be a specific preference
item for purposes of the Federal individual and corporate alternative minimum taxes to the extent they are derived from certain types of private activity bonds issued after August 7, 1986 and (b) all exempt-interest dividends will be a component of the "current earnings" adjustment item for purposes of the Federal corporate alternative minimum tax. In addition, corporate shareholders may incur a greater Federal "environmental" tax liability through the receipt of the Fund's dividends and distributions. Dividends derived from interest on Arizona Municipal Securities also will be exempt from Arizona state personal income (but not corporate franchise or corporate income) taxes. On April 6, 1995, the House of Representatives passed H.R. 1215, which would, among other things, alter the corporate alternative minimum tax by repealing the preference relating to taxexempt interest on private activity bonds for interest accruing after December 31, 1995

and would otherwise repeal the corporate alternative minimum tax for taxable years beginning after December 31, 2000. There can be no assurance that this proposed legislation will be enacted or, if enacted, will include the provi sions described herein.

Dividends paid from taxable net investment income, if any, and distributions of any net realized short-term capital gains (whether from tax exempt or taxable securities) are taxable to shareholders as ordinary income, regardless of how long they have held their Fund shares and whether such dividends or distributions are received in cash or reinvested in additional Fund shares. Distributions of net realized long-term capital gains will be taxable to shareholders as long-term capital gains, regardless of how long they have held their Fund shares and whether such distributions are received in cash or reinvested in additional shares. Furthermore, as a general rule, a shareholder's gain or loss on a sale or redemption of his or her shares will be a long-term capital gain or loss if the shareholder has held the shares for more than one year and will be a short-term capital gain or loss if the shareholder has held the shares
for one year or less. The Fund's dividends and distributions will not qualify for the dividendsreceived deduction for corporations.

Statements as to the tax status of each shareholder's dividends and distributions are mailed annually. Each shareholder will also receive, if appropriate, various written notices after the close of the Fund's prior taxable year as to the Federal income tax status of his or her dividends and distributions which were received from the Fund during the Fund's prior taxable year. These statements set forth the dollar amount of income excluded from Federal income taxes or Arizona state income taxes and the dollar amount, if any, subject to Federal income taxes. Moreover, these statements will designate the amount of exemptinterest dividends that is a specific preference item for purposes of the Federal individual and corporate
alternative minimum taxes. Shareholders should consult their tax advisors with specific reference to their own tax situations.

PURCHASE OF SHARES

GENERAL

The Fund offers four classes of shares. Class A shares are sold to investors with an initial sales charge and Class B and Class C shares are sold without an initial sales charge but are subject to a CDSC payable upon certain redemp-

PURCHASE OF SHARES (CONTINUED)

tions. Class Y shares are sold without an initial sales charge or CDSC and are available only to investors investing a minimum of $5,000,000. See "Prospectus Summary--Alternative Purchase Arrangements" for a discussion of factors to con sider in selecting which Class of shares to purchase.

Purchases of Fund shares must be made through a brokerage account maintained with Smith Barney, with an Introducing Broker or with an investment dealer in the selling group. When purchasing shares of the Fund, investors must specify whether the purchase is for Class A, Class B, Class C or Class Y shares. No maintenance fee will be charged by the Fund in connection with a brokerage account through which an investor purchases or holds shares.

Investors in Class A, Class B and Class C shares may open an account in the Fund by making an initial investment of at least $1,000. Investors in Class Y shares may open an account by making an initial investment of $5,000,000. Sub sequent investments of at least $50 may be made for all Classes. For the Fund's Systematic Investment Plan, the minimum initial investment requirement for Class A, Class B and Class C shares and the subsequent investment requirement for all Classes is $50. There are no minimum investment requirements for Class A shares for employees of Travelers and its subsidiaries, including Smith Barney, unitholders who invest distributions from a UIT sponsored by Smith Barney, and Directors of the Fund and their spouses and children. The Fund reserves the right to waive or change minimums, to decline any order to purchase its shares and to suspend the offering of shares from time to time. Shares purchased will be held in the shareholder's account by the Fund's transfer agent, The Shareholder Services Group, Inc., a subsidiary of First Data Corporation ("TSSG"). Share certificates are issued only upon a shareholder's written request to TSSG.

Purchase orders received by the Fund or Smith Barney prior to the close of regular trading on the NYSE, on any day the Fund calculates its net asset val ue, are priced according to the net asset value determined on that day. Orders received by dealers or Introducing Brokers prior to the close of regular trading on the NYSE on any day the Fund calculates its net asset value, are priced according to the net asset value determined on that day, provided the order is received by the Fund or Smith Barney prior to Smith Barney's close of business (the "trade date"). Payment for Fund shares is due on the third business day after the trade date (the "settlement date").

SYSTEMATIC INVESTMENT PLAN

Shareholders may make additions to their accounts at any time by purchasing shares through a service known as the Systematic Investment Plan. Under the Systematic Investment Plan, Smith Barney or TSSG is authorized through preau thorized transfers of $50 or more to charge an account with a bank or other financial institution on a monthly or quarterly basis as indicated by the shareholder to provide for systematic additions to the shareholder's Fund account. A shareholder who has insufficient funds to complete the transfer will be charged a fee of up to $25 by Smith Barney or TSSG. The Systematic Investment Plan also authorizes Smith Barney to apply cash held in the shareholder's Smith Barney brokerage account or redeem the shareholder's shares of a Smith Barney money market fund to make additions to the account. Additional information is available from the Fund or a Smith Barney Financial Consultant.

INITIAL SALES CHARGE ALTERNATIVE -- CLASS A SHARES

The sales charges applicable to purchases of Class A shares of the Fund are as follows:

<TABLE>
<CAPTION>

AMOUNT OF INVESTMENT	DEALERS REALLOWANCE AS OF TRANSACTION	SALES CHARGE AS % OF AMOUNT INVESTED	SALES CHARGE AS % % OF OFFERING PRICE
<S>	<C>	<C>	<C>
Under $ 25,000	4.00%	4.17%	3.60%
$ 25,000-$ 49,999	3.50%	3.63%	3.15%
$ 50,000-$ 99,999	3.00%	3.09%	2.70%
$100,000-$249,999	2.50%	2.56%	2.25%
$250,000-$499,999	1.50%	1.52%	1.35%
$500,000 and over	*	*	*

</TABLE>

* Purchases of Class A shares which, when combined with current holdings of Class A shares offered with a sales charge equal or exceed $500,000 in the aggregate, will be made at net asset value without any initial sales charge, but will be subject to a CDSC of 1.00% on redemptions made within 12 months of purchase. The CDSC on Class A shares is payable to Smith Barney, which compensates Smith Barney Financial Consultants and other dealers whose clients make purchases

of $500,000 or more. The CDSC is waived in the same circumstances in which the CDSC applicable to Class B and Class C shares is waived. See "Deferred Sales Charge Alternatives" and "Waivers of CDSC."

Members of the selling group may receive up to 90% of the sales charge and may be deemed to be underwriters of the Fund as defined in the Securities Act of 1933, as amended.

The reduced sales charges shown above apply to the aggregate of purchases of Class A shares of the Fund made at one time by "any person," which

includes an individual, his or her spouse and children, or a Director or other fiduciary of a single trust estate or single fiduciary account. The reduced sales charge minimums may also be met by aggregating the purchase with the net asset value of all Class A shares held in funds sponsored by Smith Barney that are offered with a sales charge listed under "Exchange Privilege."

INITIAL SALES CHARGE WAIVERS

Purchases of Class A shares may be made at net asset value without a sales charge in the following circumstances: (a) sales of Class A shares to Directors of the Fund and employees of Travelers and its subsidiaries, or to the spouses and children of such persons (including the surviving spouse of a deceased Director or employee, and retired Directors or employees) or employees of NASD members; (b) offers of Class A shares to any other investment company in connection with the combination of such company with the Fund by merger, acquisition of assets or otherwise; (c) purchases of Class A shares by any client of a newly employed Smith Barney Financial Consultant (for a period up to 90 days from the commencement of the Financial Consultant's employment with Smith Barney), on the condition the purchase of Class A shares is made with the proceeds of the redemption of shares of a mutual fund which (i) was sponsored by the Financial Consultant's prior employer, (ii) was sold to the client by the Financial Consultant and (iii) was subject to a sales charge; (d) shareholders who have redeemed Class A shares in the Fund (or Class A shares of other Smith Barney Mutual Funds that are offered with a sales charge equal to or greater than the maximum sales charge of the Fund) and who wish to reinvest their redemption proceeds in the Fund, provided the reinvestment is made within 60 calendar days of the redemption; (e) accounts managed by registered investment advisory subsidiaries of Travelers; and (f) investments of distributions from a UIT sponsored by Smith Barney. In order to obtain such discounts, the purchaser must provide sufficient information at the time of purchase to permit verifica tion that the purchase would qualify for the elimination of the sales charge.

RIGHT OF ACCUMULATION

Class A shares of the Fund may be purchased by "any person" (as defined above) at a reduced sales charge or at net asset value determined by aggregat ing the dollar amount of the new purchase and the total net asset value of all Class A shares of the Fund and of funds sponsored by Smith Barney which are offered with a sales charge listed under "Exchange Privilege" then held by such

PURCHASE OF SHARES (CONTINUED)

person and applying the sales charge applicable to such aggregate. In order to obtain such discount, the purchaser must provide sufficient information at the time of purchase to permit verification that the purchase qualifies for the reduced sales charge. The right of accumulation is subject to modification or discontinuance at any time with respect to all shares purchased thereafter.

GROUP PURCHASES

Upon completion of certain automated systems, a reduced sales charge or pur chase at net asset value will also be available to employees (and partners) of the same employer purchasing as a group, provided each participant makes the minimum initial investment required. The sales charge applicable to purchases by each member of such a group will be determined by the table set forth under "Initial Sales Charge Alternative--Class A Shares," and will be based upon the aggregate sales of Class A shares of Smith Barney Mutual Funds offered with a sales charge to, and share holdings of, all members of the group. To be eligible for such reduced sales charges or to purchase at net asset value, all purchases must be pursuant to an employer or partnership sanctioned plan meeting certain requirements. One such requirement is that the plan must be open to specified partners or employees of the employer and its subsidiaries, if any. Such plan may, but is not required to, provide for payroll deductions. Smith Barney may also offer a reduced sales charge or net asset value purchase for aggregating related fiduciary accounts under such conditions that Smith Barney will realize economies of sales efforts and sales related expenses. An individual who is a member of a qualified group may also purchase Class A shares at the reduced sales charge applicable to the group as a whole. The sales charge is based upon the aggregate dollar value of Class A shares offered with a sales charge that have been previously purchased and are still owned by the group, plus the amount of the current purchase. A "qualified group" is one which (a) has been in existence for more than six months, (b) has a purpose other than acquiring Fund shares at a discount and (c) satisfies uniform criteria which enable Smith Barney to realize economies of scale in its costs of distributing shares. A qualified group must have more than 10 members, must be available to arrange for group meetings between representatives of the Fund and the members, and must agree to include sales and other materials related to the Fund in its publications and mailings to members at no cost to Smith Barney. In order to obtain such reduced sales charge or to purchase at net asset value, the purchaser must provide sufficient information at the time of purchase to permit verification that

the purchase qualifies for the reduced sales charge. Approval of group purchase reduced sales charge plans is subject to the discretion of Smith Barney.

LETTER OF INTENT

Class A Shares. A Letter of Intent for amounts of $50,000 or more provides an opportunity for an investor to obtain a reduced sales charge by aggregating investments over a 13 month period, provided that the investor refers to such Letter when placing orders. For purposes of a Letter of Intent, the "Amount of Investment" as referred to in the preceding sales charge table includes (i) all Class A shares of the Fund and other Smith Barney Mutual Funds offered with a sales charge acquired during the term of the Letter plus (ii) the value of all Class A shares previously purchased and still owned. Each investment made during the period receives the reduced sales charge applicable to the total amount of the investment goal. If the goal is not achieved within the period, the investor must pay the difference between the sales charges applicable to the purchases made and the charges actually paid, or an appropriate number of escrowed shares will be redeemed. The term of the Letter will commence upon the date the Letter is signed, or at the option of the investor, up to 90 days before such date. Please contact a Smith Barney Financial Consultant or TSSG to obtain a Letter of Intent application.

Class Y Shares. A Letter of Intent may also be used as a way for investors to meet the minimum investment requirement for Class Y shares. Such investors must make an initial minimum purchase of $1,000,000 in Class Y shares of the Fund and agree to purchase a total of $5,000,000 of Class Y shares of the Fund within 6 months from the date of the Letter. If a total investment of $5,000,000 is not made within the six month period, all Class Y shares pur chased to date will be transferred to Class A shares, where they will be sub ject to all fees (including a service fee of 0.15%) and expenses applicable to the Fund's Class A shares, which may include a CDSC of 1.00%. Please contact TSSG or a Smith Barney Financial Consultant for further information.

DEFERRED SALES CHARGE ALTERNATIVES

"CDSC Shares" are sold at net asset value next determined without an initial sales charge so that the full amount of an investor's purchase payment may be immediately invested in the Fund. A CDSC, however, may be imposed on certain redemptions of these shares. "CDSC Shares" are: (a) Class B shares;

PURCHASE OF SHARES (CONTINUED)

(b) Class C shares; and (c) Class A shares which when combined with Class A shares offered with a sales charge currently held by an investor equal or exceed $500,000 in the aggregate.

Any applicable CDSC will be assessed on an amount equal to the lesser of the original cost of the shares being redeemed or their net asset value at the time of redemption. CDSC Shares that are redeemed will not be subject to a CDSC to the extent that the value of such shares represents: (a) capital appreciation of Fund assets; (b) reinvestment of dividends or capital gain distributions; (c) with respect to Class B shares, shares redeemed more than five years after their purchase; or (d) with respect to Class C shares and Class A shares that are CDSC Shares, shares redeemed more than 12 months after their purchase.

Class C and Class A shares that are CDSC Shares are subject to a 1.00% CDSC if redeemed within 12 months of purchase. In circumstances in which the CDSC is imposed on Class B shares, the amount of the charge will depend on the number of years since the shareholder made the purchase payment from which the amount is being redeemed. Solely for purposes of determining the number of years since a purchase payment, all purchase payments made during a month will be aggre-gated and deemed to have been made on the last day of the preceding

Smith Bar ney statement month. The following table sets forth the rates of the charge for redemptions of Class B shares by shareholders.

<TABLE>
<CAPTION>

YEAR SINCE PURCHASE PAYMENT WAS MADE	CDSC
<S>	<C>
First	4.50%
Second	4.00%
Third	3.00%
Fourth	2.00%
Fifth	1.00%
Sixth	0.00%
Seventh	0.00%
Eighth	0.00%

</TABLE>

Class B shares will convert automatically to Class A shares eight years after the date on which they were purchased and thereafter will no longer be subject to any distribution fees. There will also be converted at that time such proportion of Class B Dividend Shares owned by the shareholder as the total number of his or her Class B shares converting at the time bears to the total number of outstanding Class B shares (other than Class B Dividend Shares) owned by the shareholder. Shareholders who held Class B shares of Smith Barney Shearson

Short-Term World Income Fund (the "Short-Term World Income Fund") on July 15, 1994 and who subsequently exchanged those shares for Class B shares of the Fund will be offered the opportunity to exchange all such Class B shares for Class A shares of the Fund four years after the date on which those shares were deemed to have been purchased. Holders of such Class B shares will be notified of the pending exchange in writing approximately 30 days before the fourth anniversary of the purchase date and, unless the exchange has been rejected in writing, the exchange will occur on or about the fourth anniversary date. See "Prospectus Summary--Alternative Purchase ArrangementsClass B Shares Conversion Feature."

The length of time that CDSC Shares acquired through an exchange have been held will be calculated from the date that the shares exchanged were initially acquired in one of the other Smith Barney Mutual Funds, and Fund shares being redeemed will be considered to represent, as applicable, capital appreciation or dividend and capital gain distribution reinvestments in such other funds. For Federal income tax purposes, the amount of the CDSC will reduce the gain or increase the loss, as the case may be, on the amount realized on redemption. The amount of any CDSC will be paid to Smith Barney.

To provide an example, assume an investor purchased 100 Class B shares at $10 per share for a cost of $1,000. Subsequently, the investor acquired 5 addi tional shares through dividend reinvestment. During the fifteenth month after the purchase, the investor decided to redeem $500 of his or her investment. Assuming at the time of the redemption the net asset value had appreciated to $12 per share, the value of the investor's shares would be $1,260 (105 shares at $12 per share). The CDSC would not be applied to the amount which represents appreciation ($200) and the value of the reinvested dividend shares ($60). Therefore, $240 of the $500 redemption proceeds ($500 minus $260) would be charged at a rate of 4.00% (the applicable rate for Class B shares) for a total deferred sales charge of $9.60.

WAIVERS OF CDSC

The CDSC will be waived on: (a) exchanges (see "Exchange Privilege"); (b) automatic cash withdrawals in amounts equal to or less than 1.00% per month of the value of the shareholder's shares at the time the withdrawal plan commences (see "Automatic Cash Withdrawal Plan") (provided, however, that automatic cash withdrawals in amounts equal to or less than 2.00% per month of

the value of the shareholder's shares will be permitted for withdrawal plans that were established prior to November 7, 1994); (c) redemptions of shares within 12 months following the death or disability of the shareholder; (d) involuntary redemptions; and (e) redemptions of shares in connection with a combination of the Fund with any investment company by merger, acquisition of assets or otherwise. In addition, a shareholder who has redeemed shares from other Smith Barney Mutual Funds may, under certain circumstances, reinvest all or part of the redemption proceeds within 60 days and receive pro rata credit for any CDSC imposed on the prior redemption.

CDSC waivers will be granted subject to confirmation (by Smith Barney in the case of shareholders who are also Smith Barney clients or by TSSG in the case of all other shareholders) of the shareholder's status or holdings, as the case may be.

EXCHANGE PRIVILEGE

Except as otherwise noted below, shares of each Class may be exchanged at the net asset value next determined for shares of the same Class in the following funds of the Smith Barney Mutual Funds, to the extent shares are offered for sale in the shareholder's state of residence. Exchanges of Class A, Class B and Class C shares are subject to minimum investment requirements and all shares are subject to the other requirements of the fund into which exchanges are made and a sales charge differential may apply.

FUND NAME

Growth Funds

Smith Barney Aggressive Growth Fund Inc.

Smith Barney Appreciation Fund Inc.

Smith Barney Fundamental Value Fund

Inc. Smith Barney Growth Opportunity

Fund Smith Barney Managed Growth Fund

Smith Barney Special Equities Fund

Smith Barney Telecommunications Growth
Fund

EXCHANGE PRIVILEGE (CONTINUED)

Growth and Income Funds

Smith Barney Convertible Fund

Smith Barney Funds, Inc.--Income and Growth

Portfolio Smith Barney Funds, Inc.--

Utility Portfolio

Smith Barney Growth and Income Fund

Smith Barney Premium Total Return Fund

Smith Barney Strategic Investors

Fund Smith Barney Utilities Fund

Taxable Fixed-Income Funds

**Smith Barney Adjustable Rate Government Income Fund Smith

Barney Diversified Strategic Income

Fund

*Smith Barney Funds, Inc.--Income Return Account Portfolio

Smith Barney Funds, Inc.--Monthly Payment Government

Portfolio ++Smith Barney Funds, Inc.--Short-Term U.S.

Treasury Securities

Portfolio

Smith Barney Funds, Inc.--U.S. Government Securities

Portfolio Smith Barney Government Securities Fund

Smith Barney High Income Fund

Smith Barney Investment Grade Bond Fund

Smith Barney Managed Governments Fund Inc.

Tax-Exempt Funds

Smith Barney California Municipals Fund Inc.

Smith Barney Florida Municipals Fund

*Smith Barney Intermediate Maturity

California Municipals

Fund

*Smith Barney Intermediate Maturity New York

Municipals Fund

*Smith Barney Limited Maturity Municipals Fund

Smith Barney Managed Municipals Fund

Inc.

Smith Barney Massachusetts Municipals

Fund Smith Barney Muni Funds--

California Portfolio

*Smith Barney Muni Funds--Florida

Limited Term

Portfolio

Smith Barney Muni Funds--Florida
Portfolio Smith Barney Muni Funds--
Georgia Portfolio

EXCHANGE PRIVILEGE (CONTINUED)

*Smith Barney Muni Funds--Limited

Term Portfolio

Smith Barney Muni Funds--National

Portfolio Smith Barney Muni Funds--New

Jersey Portfolio

Smith Barney Muni Funds--New York

Portfolio Smith Barney Muni Funds--Ohio

Portfolio

Smith Barney Muni Funds--Pennsylvania Portfolio Smith

Barney New Jersey Municipals Fund Inc. Smith Barney

New York Municipals Fund Inc. Smith Barney Oregon

Municipals Fund

Smith Barney Tax-Exempt Income Fund

International Funds

Smith Barney World Funds, Inc.--Emerging Markets

Portfolio Smith Barney World Funds, Inc.--European

Portfolio

Smith Barney World Funds, Inc.--Global Government Bond

Portfolio Smith Barney World Funds, Inc.-

International Balanced Portfolio Smith Barney World

Funds, Inc.International Equity Portfolio Smith

Barney World Funds, Inc.-Pacific Portfolio

Smith Barney Precious Metals and Minerals Fund Inc.

Money Market Funds

+Smith Barney Exchange Reserve Fund

++Smith Barney Money Funds, Inc.--Cash

Portfolio

++Smith Barney Money Funds, Inc.--Government

Portfolio

**Smith Barney Money Funds, Inc.--Retirement

Portfolio

++Smith Barney Municipal Money Market Fund,

Inc.

++Smith Barney Muni Funds--California Money Market Portfolio

++Smith Barney Muni Funds--New York Money Market Portfolio -------------
-
- ---*
Available for exchange with Class A, Class C and Class Y shares of the Fund. ** Available for exchange with Class A shares of the Fund.
+ Available for exchange with Class B and Class C shares of the Fund.
++ Available for exchange with Class A and Class Y shares of the Fund.

EXCHANGE PRIVILEGE (CONTINUED)

Class A Exchanges. Class A shares of Smith Barney Mutual Funds sold without a sales charge or with a maximum sales charge of less than the maximum charged by other Smith Barney Mutual Funds will be subject to the appropriate "sales charge differential" upon the exchange of such shares for Class A shares of a fund sold with a higher sales charge. The "sales charge differential" is limited to a percentage rate no greater than the excess of the sales charge rate applicable to purchases of shares of the mutual fund being acquired in the exchange, over the sales charge rate(s) actually paid on the mutual fund shares relinquished in the exchange and on any predecessor of those shares. For purposes of the exchange privilege, shares obtained through automatic reinvestment of dividends and capital gains distributions are treated as having paid the same sales charges applicable to the shares on which the dividends or distributions were paid; however, if no sales charge was imposed upon the initial purchase of shares, any shares obtained through automatic reinvestment will be subject to a sales charge differential upon exchange.

Class B Exchanges. In the event a Class B shareholder (unless such share holder was a Class B shareholder of the Short-Term World Income Fund on July 15, 1994) wishes to exchange all or a portion of his or her shares in any of the funds imposing a higher CDSC than that imposed by the Fund, the exchanged Class B shares will be subject to the higher applicable CDSC. Upon an exchange, the new Class B shares will be deemed to have been purchased on the same date as the Class B shares of the Fund that have been exchanged.

Class C Exchanges. Upon an exchange, the new Class C shares will be deemed to have been purchased on the same date as the Class C shares of the Fund that have been exchanged.

Class Y Exchanges. Class Y shareholders of the Fund who wish to exchange all or a portion of their Class Y shares for Class Y shares in any of the funds identified above may do so without imposition of any charge.

Additional Information Regarding the Exchange Privilege. Although the exchange privilege is an important benefit, excessive exchange transactions can be detrimental to the Fund's performance and its shareholders. SBMFM may determine that a pattern of frequent exchanges is excessive and contrary to the best interests of the Fund's other shareholders. In this event, SBMFM will notify Smith Barney and Smith Barney may, at its discretion, decide to limit additional purchases and/or exchanges by a shareholder. Upon such a determina-

EXCHANGE PRIVILEGE (CONTINUED)

tion, Smith Barney will provide notice in writing or by telephone to the shareholder at least 15 days prior to suspending the exchange privilege and during the 15 day period the shareholder will be required to (a) redeem his or her shares in the Fund or (b) remain invested in the Fund or exchange into any Smith Barney Mutual Funds ordinarily available, which position the shareholder would be expected to maintain for a significant period of time. All relevant factors will be considered in determining what constitutes an abusive pattern of exchanges.

Exchanges will be processed at the net asset value next determined, plus any applicable sales charge differential. Redemption procedures discussed below are also applicable for exchanging shares, and exchanges will be made upon receipt of all supporting documents in proper form. If the account registration of the shares of the fund being acquired is identical to the registration of the shares of the fund exchanged, no signature guarantee is required. A capital gain or loss for tax purposes will be realized upon the exchange, depending upon the cost or other basis of shares redeemed. Before exchanging shares, investors should read the current prospectus describing the shares to be acquired. The Fund reserves the right to modify or discontinue exchange privi leges upon 60 days' prior notice to shareholders.

REDEMPTION OF SHARES

The Fund is required to redeem the shares of the Fund tendered to it, as described below, at a redemption price equal to their net asset value per share next determined after receipt of a written request in proper form at no charge other than any applicable CDSC. Redemption requests received after the close of regular trading on the NYSE are priced at the net asset value next determined.

If a shareholder holds shares in more than one Class, any request for redemption must specify the Class being redeemed. In the event of a failure to spec ify which Class, or if the investor owns fewer shares of the Class than speci fied, the redemption request will be delayed until the Fund's transfer agent receives further instructions from Smith Barney, or if the shareholder's account is not with Smith Barney, from the shareholder directly. The redemption proceeds will be remitted on or before the third business day following receipt of proper tender, except on any days on which the NYSE is closed or as permitted under the

1940 Act in extraordinary circumstances. Generally, if the redemption proceeds are remitted to a Smith Barney brokerage account, these funds will not be invested for the shareholder's benefit without specific instruction and Smith Barney will benefit from the use of temporarily uninvested funds.

Redemption proceeds for shares purchased by check, other than a certified or official bank check, will be remitted upon clearance of the check, which may take up to ten days or more.

Shares held by Smith Barney as custodian must be redeemed by submitting a written request to a Smith Barney Financial Consultant. Shares other than those held by Smith Barney as custodian may be redeemed through an investor's Financial Consultant, Introducing Broker or dealer in the selling group or by submitting a written request for redemption to:

Smith Barney Arizona Municipals Fund Inc.
Class A, B, C or Y (please specify)
c/o The Shareholder Services Group, Inc.

P.O. Box 9134
Boston, Massachusetts 02205-9134

A written redemption request must (a) state the Class and number or dollar amount of shares to be redeemed, (b) identify the shareholder's account number and (c) be signed by each registered owner exactly as the shares are regis tered. If the shares to be redeemed were issued in certificate form, the cer tificates must be endorsed for transfer (or be accompanied by an endorsed stock power) and must be submitted to TSSG together with the redemption request. Any signature appearing on a redemption request, share certificate or stock power must be guaranteed by an eligible guarantor institution such as a domestic bank, savings and loan institution, domestic credit union, member bank of the Federal Reserve System or member firm of a national securities exchange. TSSG may require additional supporting documents for redemptions made by corporations, executors, administrators, Directors or guardians. A redemption request will not be deemed properly received until TSSG receives all required documents in proper form.

AUTOMATIC CASH WITHDRAWAL PLAN

The Fund offers shareholders an automatic cash withdrawal plan, under which shareholders who own shares with a value of at least $10,000 may elect

REDEMPTION OF SHARES (CONTINUED)

to receive cash payments of at least $50 monthly or quarterly. The withdrawal plan will be carried over on exchanges between funds or Classes of the Fund. Any applicable CDSC will not be waived on amounts withdrawn by a shareholder that exceed 1.00% per month of the value of the shareholder's shares subject to the CDSC at the time the withdrawal plan commences. (With respect to withdrawal plans in effect prior to November 7, 1994, any applicable CDSC will be waived on amounts withdrawn that do not exceed 2.00% per month of the value of the shareholder's shares subject to the CDSC.) For further information regarding the automatic cash withdrawal plan, shareholders should contact a Smith Barney Financial Consultant.

MINIMUM ACCOUNT SIZE

The Fund reserves the right to involuntarily liquidate any shareholder's account in the Fund if the aggregate net asset value of the shares held in the Fund account is less than $500. (If a shareholder has more than one account in this Fund, each account must satisfy the minimum account size.) The Fund, however, will not redeem shares based solely on market reductions in net asset value. Before the Fund exercises such right, shareholders will receive written notice and will be permitted 60 days to bring accounts up to the minimum to avoid automatic redemption.

PERFORMANCE

YIELD

From time to time, the Fund may advertise its 30-day "yield" and "equivalent taxable yield" for each Class of shares. The yield refers to the income generated by an investment in those shares over the 30-day period identified in the advertisement and is computed by dividing the net investment income per share earned by the Class during the period by the maximum public offering price per share on the last day of the period. This income is "annualized" by assuming that the amount of income is generated each month over a one-year period and is compounded semiannually. The annualized income is then shown as a percentage of the net asset value.

The equivalent taxable yield demonstrates the yield on a taxable investment necessary to produce an after-tax yield equal to the Fund's taxexempt yield for

each Class. It is calculated by increasing the yield shown for the Class to the extent necessary to reflect the payment of taxes at specified tax rates.
Thus, the equivalent taxable yield always will exceed the Fund's yield.

TOTAL RETURN

From time to time, the Fund may include its total return, average annual total return and current dividend return in advertisements and/or other types of sales literature. These figures are computed separately for Class A, Class B, Class C and Class Y shares of the Fund. These figures are based on histori cal earnings and are not intended to indicate future performance. Total return is computed for a specific period of time assuming deduction of the maximum sales charge, if any, from the initial amount invested and reinvestment of all income dividends and capital gain distributions on the reinvestment dates at prices calculated as stated in this Prospectus, then dividing the value of the investment at the end of the period so calculated by the initial amount invested and subtracting 100%. The standard average annual total return, as prescribed by the SEC, is derived from this total return, which provides the ending redeemable value. Such standard total return information may also be accompanied with nonstandard total return information for differing periods computed in the same manner but without annualizing the total return or taking sales charges into account. The Fund calculates current dividend return for each Class by annualizing the most recent monthly distribution and dividing by the net asset value of the maximum public offering price (including sales charge) on the last day of the period for which current dividend return is presented. The current dividend return for each Class may vary from time to time depending on market conditions, the composition of its investment portfolio and operating expenses. These factors and possible differences in the methods used in calculating current dividend return should be considered when comparing a Class' current return to yields published for other investment companies and other investment vehicles. The Fund may also include comparative performance information in advertising or marketing its shares. Such performance informa tion may include data from Lipper Analytical Services, Inc. or similar independent services that monitor the performance of mutual funds or other industry publications. The Fund will include performance data for Class A, Class B, Class C and Class Y shares in any advertisement or information including performance data of the Fund.

MANAGEMENT OF THE FUND

BOARD OF DIRECTORS

Overall responsibility for management and supervision of the Fund rests with the Fund's Board of Directors. The Directors approve all significant agreements between the Fund and the companies that furnish services to the Fund, including agreements with its distributor, investment adviser and administrator, custodian and transfer agent. The day-to-day operations of the Fund are delegated by the Board to the Fund's investment adviser and administrator. The Statement of Additional Information contains background information regarding each Director and executive officer of the Fund.

INVESTMENT ADVISER

SBMFM, located at 388 Greenwich Street, New York, New York 10013, serves as the Fund's investment adviser pursuant to a transfer of the advisory agreement, effective November 7, 1994, from its affiliate Mutual Management Corp. (Mutual Management Corp. and SBMFM are both wholly owned subsidiaries of Holdings.) Investment advisory services continue to be provided to the Fund by the same portfolio managers who provided services under the agreement with Mutual Management Corp. SBMFM (through predecessor entities) has been in the investment counseling business since 1934 and is a registered investment adviser. SBMFM renders investment advice to investment companies that had aggregate assets under management as of June 30, 1995, in excess of $64 billion.

Subject to the supervision and direction of the Fund's Board of Directors, SBMFM manages the Fund's portfolio in accordance with the Fund's stated investment objective and policies, makes investment decisions for the Fund, places orders to purchase and sell securities and employs professional portfolio managers and securities analysts who provide research services to the Fund. For investment advisory services rendered, the Fund pays SBMFM a fee at the following annual rates of average daily net assets: 0.35% up to $500 million and 0.32% of the value of its average daily net assets in excess of $500 million. For the fiscal year ended May 31, 1995, SBMFM was paid investment advisory fees equal to 0.35% of the value of the average daily net assets of the Fund.

PORTFOLIO MANAGEMENT

Lawrence T. McDermott, Vice President and Investment Officer of the Fund since October 1988 and a Managing Director of SBMFM, is responsible for man-

aging the day-to-day operations of the Fund including, making all investment decisions.

Management's discussion and analysis, and additional performance regarding the Fund during the fiscal year ended May 31, 1995 is included in the Annual Report dated May 31, 1995. A copy of the Annual Report may be obtained upon request and without charge from a Smith Barney Financial Consultant or by writ ing or calling the Fund at the address or phone number listed on page one of this Prospectus.

ADMINISTRATOR

SBMFM also serves as the Fund's administrator and oversees all aspects of the Fund's administration. For administration services rendered, the Fund pays SBMFM a fee at the following annual rates of average daily net assets: 0.20% to $500 million and 0.18% of the value of its average daily net assets in excess of $500 million. For the fiscal year ended May 31, 1995, SBMFM was paid administration fees equal to 0.20% of the value of the average daily net assets of the Fund.

DISTRIBUTOR

Smith Barney is located at 388 Greenwich Street, New York, New York 10013. Smith Barney distributes shares of the Fund as principal underwriter and as such conducts a continuous offering pursuant to a "best efforts" arrangement requiring Smith Barney to take and pay for only such securities as may be sold to the public. Pursuant to a plan of distribution adopted by the Fund under Rule 12b-1 under the 1940 Act (the "Plan"), Smith Barney is paid a service fee with respect to Class A, Class B and Class C shares of the Fund at the annual rate of 0.15% of the average daily net assets of the respective Class. Smith Barney is also paid a distribution fee with respect to Class B and Class C shares at the rate of 0.50% and 0.55%, respectively, of the average daily net assets attributable to those Classes. Class B shares which automatically con vert to Class A shares eight years after the date of original purchase, will no longer be subject to a distribution fee. The fees are used by Smith Barney to pay its Financial Consultants for servicing shareholder accounts and, in the case of Class B and Class C shares, to cover expenses primarily intended to result in the sale of those shares. These expenses include: advertising expenses; the cost of printing and mailing prospectuses to potential investors; payments to and expenses of Smith Barney Financial Consultants and other per- sons who provide support services in connection with the distribution of shares; interest and/or

DISTRIBUTOR (CONTINUED)

carrying charges; and indirect and overhead costs of Smith Barney in connection with the sale of Fund shares, including lease, utility, communications and sales promotion expenses.

The payments to Smith Barney Financial Consultants for selling shares of a Class include a commission or fee paid by the investor or Smith Barney

at
the time of sale and, with respect to Class A, Class B and Class C shares, a con tinuing fee for servicing shareholder accounts for as long as a
shareholder remains a holder of that Class. Smith Barney Financial Consultants may receive different levels of compensation for selling different Classes of shares.

Payments under the Plan are not tied exclusively to the distribution and shareholder service expenses actually incurred by Smith Barney and the payments may exceed distribution expenses actually incurred. The Fund's Board of Directors will evaluate the appropriateness of the Plan and its payment terms on a continuing basis and in so doing will consider all relevant factors, including expenses borne by Smith Barney, amounts received under the Plan and proceeds of the CDSC.

ADDITIONAL INFORMATION

The Fund was incorporated under the laws of the State of Maryland on May 4, 1987 and is registered with the SEC as a diversified, open-end management investment company.

Each Class of the Fund represents an identical interest in the Fund's investment portfolio. As a result, the Classes have the same rights, privileges and preferences, except with respect to: (a) the designation of each Class; (b) the effect of the respective sales charges for each Class; (c) the distribution and/or service fees borne by each Class; (d) the expenses allocable exclusively to each Class; (e) voting rights on matters exclusively affecting a single Class; (f) the exchange privilege of each Class; and (g) the conversion feature of the Class B shares. The Board of Directors does not anticipate that there will be any conflicts among the interests of the holders of the different Classes. The Directors, on an ongoing basis, will consider whether any such conflict exists and, if so, take appropriate action.
The Fund does not hold annual shareholder meetings. There normally will be no meetings of shareholders for the purpose of electing Directors unless and

until such time as less than a majority of the Directors holding office have been elected by shareholders. The Directors will call a meeting for any

purpose upon written request of shareholders holding at least 10% of the Fund's outstanding shares, and the Fund will assist shareholders in calling such a meeting as required by the 1940 Act. When matters are submitted for shareholder vote, shareholders of each Class will have one vote for each full share owned
and a proportionate, fractional vote for any fractional share held of that Class. Generally, shares of the Fund will be voted on a Fund-wide basis on all matters except matters affecting only the interests of one Class.
PNC Bank, National Association, located at 17th and Chestnut Streets, Philadelphia Pennsylvania 19103, serves as custodian of the Fund's investments.

TSSG, located at Exchange Place, Boston, Massachusetts 02109, serves as the Fund's transfer agent.
The Fund sends to each of its shareholders a semi-annual report and an audited annual report, which include listings of the investment securities held by the Fund at the end of the reporting period. In an effort to reduce the Fund's printing and mailing costs, the Fund plans to consolidate the mailing of its semi-annual and annual reports by household. This consolidation means that a household having multiple accounts with the identical address of record will
receive a single copy of each report. Shareholders who do not want this consolidation to apply to their account should contact their Financial Consultants or the Fund's transfer agent.

SMITH BARNEY ---------

A Member of Travelers Group [LOGO APPEARS HERE]

SMI

TH BARNEY ARIZONA MUNICIPALS FUND INC.

388 Greenwich Street New York, New York 10013

(212)7239218

FD 0238

Smith Barney
Arizona Municipals Fund Inc.
388 Greenwich Street
New York, New York 10013
(212) 723-9218

Statement of Additional Information
July 30, 1995

This Statement of Additional Information expands upon and supplements the information contained in the current Prospectus of Smith Barney Arizona Municipals Fund Inc. (the "Fund''), dated July 30, 1995, as amended or supplemented from time to time, and should be read in conjunction with the Fund's Prospectus. The Fund's Prospectus may be obtained from a Smith Barney Financial Consultant or by writing or calling the Fund at the address or telephone number set forth above. This Statement of Additional Information, although not in itself a prospectus, is incorporated by reference into the Prospectus in its entirety.

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<TABLE>
<CAPTION>

For ease of reference the same section headings are used in both the Prospectus and the Statement of Additional Information, except where shown below: <S> <C>

</TABLE>
MANAGEMENT OF THE FUND

The executive officers of the Fund are employees of certain of the organizations that provide services to the Fund. These organizations are as follows: <TABLE>

<S> <C>
Name Service
Smith Barney Inc.
("Smith
Barney'')....................................
 .. ..
 .. .. Distributor
Smith Barney Mutual Funds Management Inc.
("SBMFM'')..................................
 .. .. Investment
Adviser and
     Administrator
PNC Bank, National Association

("PNC'')....................................
 .. ..
Custodian The Shareholder Services Group, Inc.
("TSSG''),
  a subsidiary of First Data
Corporation........................
Transfer Agent   </TABLE>
These organizations and the functions they perform for the Fund are discussed in the Prospectus and in this Statement of Additional Information.

Directors and Executive Officers of the Fund

The names of the Directors and executive officers of the Fund, together with information as to their principal business occupations during the past five years, are shown below. Each Director who is an "interested person'' of the Fund, as defined in the Investment Company Act of 1940, as amended (the "1940 Act''), is indicated by an asterisk.

Herbert Barg, Director (Age 73) . Private Investor. His address is 273 Montgomery Avenue, Bala Cynwyd, Pennsylvania 19004.

*Alfred J. Bianchetti, Director (Age 72) . Retired; formerly Senior Consultant to Dean Witter Reynolds Inc. His address is 19 Circle End Drive, Ramsey, New Jersey 17466.

Martin Brody, Director (Age 73) . Vice Chairman of the Board of Restaurant Associates Industries Corp.; a Director of Jaclyn, Inc. His address is HMK Associates, Three ADP Boulevard, Roseland, New Jersey 07068.

Dwight B. Crane, Director (Age 57) . Professor, Graduate School of Business Administration, Harvard University; a Director of Peer Review Analysis, Inc. His address is Graduate School of Business Administration, Harvard University, Boston, Massachusetts 02163.

Burt N. Dorsett, Director (Age 69). Managing Partner of Dorsett McCabe Management, Inc., an investment counseling firm; Director of Research Corporation Technologies, Inc., a non-profit patent-clearing and licensing firm. His address is 201 East 62nd Street, New York, New York 10021.

Elliot S. Jaffe, Director (Age 68). Chairman of the Board and President of The Dress Barn, Inc. His address is 30 Dunnigan Drive, Suffern, New York 10901.

Stephen E. Kaufman, Director (Age 63) . Attorney. His address is 277 Park Avenue, New York, New York 10172.

Joseph J. McCann, Director (Age 64) . Financial Consultant; formerly Vice President of Ryan Homes, Inc., Pittsburgh, Pennsylvania.

His address is 200 Oak Park Place, Pittsburgh, Pennsylvania 15243.

*Heath B. McLendon, Chairman of the Board and Investment Officer (Age 62). Managing Director of Smith Barney, Chairman of the Board of Smith Barney Strategy Advisers Inc. and President of SBMFM ; prior to July 1993, Senior Executive Vice President of Shearson Lehman
Brothers Inc. ("Shearson Lehman Brothers''), Vice Chairman of Asset Management Division of Shearson Lehman Brothers; a Director of PanAgora Asset Management, Inc. and PanAgora Asset Management Limited. His address is 388 Greenwich Street, New York, New York 10013.

Cornelius C. Rose, Jr., Director (Age 61). President, Cornelius C. Rose Associates, Inc., financial consultants, and Chairman and Director of Performance Learning Systems, an educational consultant. His address is P.O. Box 355, Fair Oaks, Enfield, New Hampshire 03748.

James J. Crisona, Director emeritus (Age 87) . Attorney; formerly Justice of the Supreme Court of the State of New York. His address is 118 East 60th Street, New York, New York 10022.

Jessica M. Bibliowicz, President (Age 35). Executive Vice President of Smith Barney; prior to 1994, Director of Sales and Marketing for Prudential Mutual Funds; prior to 1990, First Vice President, Asset Management Division of Shearson Lehman Brothers. Ms. Bibliowicz also serves as
President of 39 other Smith Barney Mutual Funds. Her address is 388 Greenwich Street, New York, New York 10013.

Lewis E. Daidone, Senior Vice President and Treasurer (Age 37). Managing Director of Smith Barney; Director and Senior Vice President
of SBMFM. Mr. Daidone also serves as Senior Vice President and Treasurer of 41 other Smith Barney Mutual Funds. His address is 388 Greenwich Street, New York, New York 10013.

Lawrence T. McDermott, Vice President and Investment Officer (Age 46). Investment Officer of SBMFM; prior to July 1993, Managing Director of Shearson Lehman Advisors, the predecessor to SBMFM. Mr. McDermott also serves as Investment Officer of 10 other Smith Barney Mutual Funds. His address is 388 Greenwich Street, New York, New York 10013.
Karen L. Mahoney-Malcomson, Investment Officer (Age 38). Investment Officer of SBMFM; prior to July 1993, Vice President of Shearson Lehman Advisors. Ms. Mahoney Malcomson also serves as Investment Officer of 7 other Smith Barney Mutual Funds. Her address is 388 Greenwich Street, New York, New York 10013.

Christina T. Sydor, Secretary (Age 44). Managing Director of Smith Barney ; General Counsel and Secretary of SBMFM. Ms. Sydor also serves as Secretary of 41 other Smith Barney Mutual Funds. Her address is 388 Greenwich Street, New York, New York 10013.
Each Director also serves as a director, trustee and/or general partner of certain other mutual funds for which Smith Barney serves as distributor. As of June 30, 1995 , the Directors and officers of the Fund as a group owned less than 1.00% of the outstanding common stock of the Fund. As of June 30, 1995, to the knowledge of the Fund and the Board, no single shareholder or "group" (as that term is used in Section 13(d) of the Securities Act of 1934) beneficially owned more than 5% of the outstanding shares of the Fund with the exception of the following: <TABLE>
<S> <C>
<C>

Shareholder	Class	Percent Ownership
American Western Trading Co.6531 N. 3rd Ave #15Phoenix, AZ 85013-1258	Class C	57.25%
Rachel Fritch Harris7046 N. 59th PlaceScottsdale, AZ 85253 3412	Class C	22.82%
Peter BrowneHilda Browne3031 N. Civic CenterPlaza Apt 26DScottsdale, AZ 85251-7910	Class C	14.45%

</TABLE>

No Director, officer or employee of Smith Barney or of any parent or subsidiary receives any compensation from the Fund for serving as an officer or Director of the Fund. The Fund pays each Director who is not an officer, director or employee of Smith Barney or any of its affiliates a fee of $1000 per annum plus $100 per meeting attended

and each Director emeritus who is not an officer, director or employee of Smith Barney or any of its affiliates a fee of $500 per annum plus $50 per meeting attended. The Fund reimburses all Directors for travel and out ofpocket expenses incurred to attend such meetings. For the fiscal year ended May 31, 1995, such fees and expenses totaled $15,733. For the fiscal year ended May 31, 1995, the Directors of the Fund were paid the following compensation: <TABLE>

<S>
<C>
<C>

<C> Director	Aggregate Compensation from the Fund	Aggregate Compensation from the Smith Barney Mutual Funds 11
Herbert Barg (13)*..............................	$1,850	$ 77,850
Alfred J. Bianchetti(8)*......................	1,500	38,850
Martin Brody (15)*..............................	1,500	111,675
Dwight B. Crane (18)*.........................	1,500	125,975
Burt N. Dorsett (12)*...........................	1,050	34,300
Robert Frankel1(7)*............................	800	75,850
Paul Hardin1(12)*..............................	800	68,600
Elliot S. Jaffe (12)*.............................	1,050	33,300
Stephen E. Kaufman (10)*....................	1,500	83,600
Joseph J. McCann (18)*.......................	1,500	51,100
Heath B. McLendon (29)*....................		

- --   --
Cornelius C. Rose (12)*........................
1,050   33,300
James J. Crisona** (10)*.......................
1,150   67,350 <FN>_____________________
* Number of directorships/trusteeships held with other mutual funds in the Smith Barney Mutual Funds.
** Director Emeritus. A Director emeritus may attend meetings of the Fund's Board of Directors but has no voting rights at such meetings.
1As of January 1, 1995, Messrs. Frankel and Hardin resigned from the Fund's Board of Directors. The information presented in this table for aggregate compensation reflects the compensation paid to Messrs. Frankel and Hardin by funds within the Smith Barney Mutual Funds for which they served as directors as of the date of this Statement of Additional Information.
11 The information presented in this column reflects the compensation paid to each director during the calendar year ended December 31, 1994.

</TABLE>
Investment Adviser and Administrator-SBMFM

SBMFM serves as investment adviser to the Fund pursuant to a transfer of the investment advisory agreement effective November 7, 1994, from its affiliate, Mutual Management Corp. Mutual Management Corp. and SBMFM are both wholly owned subsidiaries of Smith Barney Holdings Inc. ("Holdings'') which, in turn, is a wholly owned subsidiary of Travelers Group Inc. ("Travelers''). The advisory agreement is dated July 30, 1993 (the "Advisory Agreement'') and was first approved by the Board of Directors, including a majority of those Directors who are not "interested persons'' of the Fund or Smith Barney, on April 7, 1993. The services provided by SBMFM under the Advisory Agreement are described in the Prospectus under "Management of the Fund.'' SBMFM pays the salary of any officer or employee who is employed by both it and the Fund.

As compensation for investment advisory services, the Fund pays SBMFM a fee computed daily and paid monthly at the following annual rates of the Fund's average daily net assets: 0.35% up to $500 million; and 0.32% in excess of $500 million. For the 1993, 1994 and 1995 fiscal years, the investment advisory fees paid to SBMFM and its predecessors amounted to, $152,895, $212,048 and $220,638, respectively. SBMFM and its predecessors voluntarily waived investment advisory fees for the fiscal years ended May 31, 1993, 1994 and 1995 in the amounts of $91,408, $85,477 and $73,668, respectively.

SBMFM also serves as administrator to the Fund pursuant to a written agreement dated April 20, 1994 (the "Administration Agreement''), which was most recently approved by the Fund's Board of Directors, including a majority of Directors who are not "interested persons'' of the Fund or SBMFM, on July 19, 1994. The services provided by SBMFM under the Administration Agreement are described in the Prospectus under "Management of the Fund.'' SBMFM pays the salary of any officer and employee who is employed by both it and the Fund and bears all expenses in connection with the performance of its services.

As compensation for administrative services rendered to the Fund, SBMFM receives a fee paid at the following annual rates: 0.20% of average daily net assets up to $500 million; and 0.18% of average daily net assets in excess of $500 million. For the fiscal years ended May 31, 1993, 1994 and 1995 administrative fees paid to SBMFM and its predecessors equaled $87,369, 121,170 and 126,079, respectively. SBMFM and its predecessors voluntarily waived administrative fees for the fiscal years ended May 31, 1993, 1994 and 1995 in the amounts of $52,233, $48,844 and $42,095, respectively. The Fund bears expenses incurred in its operations, including: taxes, interest, brokerage fees and commissions, if any; fees of Directors who are not officers, directors, shareholders or employees of Smith Barney or SBMFM; SEC fees and state Blue Sky qualification fees; charges of custodian; transfer and dividend disbursing agent's fees; certain insurance premiums; outside auditing and legal expenses; costs of any independent pricing service; costs of maintaining corporate existence; costs attributable to investors services (including allocated telephone and personnel expenses); costs of preparation and printing of prospectuses for regulatory purposes and for distribution to existing shareholders; costs of shareholders' reports and shareholder meetings and meetings of the officers or Board of Directors of the Fund.

SBMFM has agreed that if in any fiscal year the aggregate expenses of the Fund (including fees payable pursuant to the Advisory Agreement and Administration Agreement but excluding interest, taxes and brokerage fees paid pursuant to the Fund's services and distribution plan, and, with the prior written consent of the necessary state securities commissions, extraordinary expenses) exceed the expense limitation of any state having jurisdiction over the Fund, SBMFM will, to the extent required by state law, reduce its fees by the amount of such excess expenses. Such fee reductions, if any, will be reconciled on a monthly basis. For the fiscal year ended May 31, 1995 no such fee reduction was required.

Counsel and Auditors

Willkie Farr & Gallagher serves as legal counsel to the Fund. The Directors who are not "interested persons'' of the Fund ("Independent Directors") have selected Stroock & Stroock & Lavan as their legal counsel.

KPMG Peat Marwick LLP ("Peat Marwick"), independent accountants, 345 Park Avenue, New York, New York 10154, serve as auditors of the Fund and will render an opinion on the Fund's financial statements annually beginning with the fiscal year ending May 31, 1995. Prior to Peat Marwick's appointment, Coopers and Lybrand L.L.P. served as auditors of the Fund and rendered an opinion on the Fund's financial statements for the fiscal year ended May 31, 1995.

INVESTMENT OBJECTIVE AND MANAGEMENT POLICIES

The Prospectus discusses the Fund's investment objective and the policies it employs to achieve that objective. The following discussion supplements the description of the Fund's investment policies in the Prospectus.

To achieve its investment objective, the Fund invests in "investment grade" municipal securities of issuers in the State of Arizona, i.e., securities within the four highest rating categories of Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Corporation ("S&P"). With respect to rated securities, there is no percentage limitation on the amount of the Fund's assets which may be invested in securities within any particular rating classification. A description of the ratings of Moody's and S&P is contained in the Appendix to this Statement of Additional

Information. Baa securities are considered "medium grade" obligations by Moody's, and BBB is the
lowest classification which is still considered an "investment grade" rating by S&P. Baa securities are described by Moody's as obligations on which "interest payments and principal security appear adequate for the present, but certain protective elements may be lacking or may be characteristically unreliable over any great length of time." According to Moody's, "such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well."

Use of Ratings as Investment Criteria. In general, the ratings of Moody's and S&P represent the opinions of those agencies as to the quality of the securities and short-term investments which they rate. It should be emphasized, however, that such ratings are relative and subjective, are not absolute standards of quality and do not evaluate the market risk of securities. These ratings will be used by the Fund as initial criteria for the selection of portfolio securities, but the Fund also will rely upon the independent advice of SBMFM to evaluate potential investments. Among the factors which will be considered are the long-term ability of the issuer to pay principal and interest and general economic trends.

Subsequent to its purchase by the Fund, an issue of securities may cease to be rated or its rating may be reduced below the minimum required for purchase by the Fund. Neither event will require the sale of such securities by the Fund, but SBMFM will consider such event in its determination of whether the Fund should continue to hold such securities. In addition, to the extent the ratings change as a result of changes in such organizations or their rating systems or due to a corporate restructuring of Moody's or S&P, the Fund will attempt to use comparable ratings as standards for its investments in accordance with its investment objective and policies.

When-Issued Purchases and Firm Commitment Agreements.

When the Fund purchases new issues of municipal securities on a when-issued basis, a segregated account consisting of cash, obligations issued or guaranteed by the United States government, its agencies or instrumentalities ("U.S. government securities") or high quality debt securities equal to the amount of the commitment, will be established by the Fund's custodian. If the value of securities in the account should decline, additional cash or securities will be placed in the account so that the market value of the account will equal the amount of such commitments by the Fund on a daily basis.

Securities purchased on a when-issued basis and the securities held in the Fund's portfolio are subject to changes in market value based upon various factors, including changes in the level of market interest rates. Generally, the value of such securities will fluctuate inversely to changes in interest rates (i.e., they will appreciate in value when market interest rates decline, and decrease in value when market interest rates rise). For this reason, placing securities rather than cash in a segregated account may have a leveraging effect on the Fund's net assets. That is, to the extent the Fund remains substantially fully invested in securities at the same time that it has committed to purchase securities on a when issued basis, there will be greater fluctuations in its net assets than if it had set aside cash to satisfy its purchase commitment.

Upon the settlement date of the when-issued securities, the Fund ordinarily will meet its obligation to purchase the securities from available cash flow or from use of the cash (or liquidation of securities) held in the segregated account or sale of other securities. Although it normally would not expect to do so, the Fund also may meet its obligation from the sale of the whenissued securities themselves (which may have a current market value greater or less than the Fund's payment obligation). Sale of securities to meet such obligations carries with it a greater potential for the realization of net capital gains, which are not exempt from Federal income tax.

When the Fund engages in when-issued transactions, it relies on the seller to consummate the trade. Failure of the seller to do so may result in the Fund's incurring a loss of opportunity to obtain a price considered to be advantageous.

The Fund also may enter into firm commitment agreements for the purchase of securities at an agreed upon price on a specified future date. During the time that the Fund is obligated to purchase such securities, it will maintain in a segregated account with the Fund's custodian U.S. government securities, high grade debt obligations or cash or cash equivalents of an aggregate value sufficient to make payment for the securities.

Puts or Stand-by Commitments. As discussed in the Prospectus, the Fund may acquire puts or stand-by commitments which will enable the Fund to improve its portfolio liquidity by providing a ready market for certain municipal securities in its portfolio at an acceptable price. The price the Fund pays for municipal securities with puts generally is higher than the price which otherwise would be paid for the municipal securities alone. The put generally is for a shorter term than the maturity of the municipal security and does not restrict in any way the Fund's ability to dispose of (or retain) the municipal security.

In order to ensure that the interest on municipal securities subject to puts is tax-exempt for the Fund, the Fund will limit its use of puts in accordance with current interpretations or rulings of the Internal Revenue Service (the "IRS"). The IRS has issued a ruling (Rev. Rule. 82-144) in which it determined that a regulated investment company was the owner for tax purposes of municipal securities subject to puts (with the result that interest on those securities would not lose its taxexempt status when paid to the company). The IRS position in Rev. Rule. 82-144 relates to a particular factual situation, including that (a) the municipal securities with puts were purchased at prices higher than the underlying municipal securities without puts, (b) a relatively small number of the municipal securities owned by the company were subject to puts, (c) the puts were nonassignable and terminated upon disposal of the underlying securities by the company, (d) the puts were for periods substantially less than the terms of the underlying securities, (e) the puts did not include call arrangements or restrict the disposal of the underlying securities by the company and gave the seller no rights in the underlying securities, and (f) the securities were acquired by the company for its own account and not as security for a loan from the seller.

Because it is difficult to evaluate the likelihood of exercise or the potential benefit of a put, it is expected that puts will be determined to have a "value" of zero, regardless of whether any direct or indirect consideration was paid. Where the Fund has paid for a put, its cost will be reflected as unrealized depreciation in the underlying security for the period during which the commitment is held, and therefore would reduce any potential gains on the sale of the underlying security by the cost of the put. There is a risk that the seller of the put may not be able to repurchase the security upon exercise of the put by the Fund.

Temporary Investments. As stated in the Prospectus, the Fund may invest in short-term municipal securities of Arizona issuers. Short term municipal securities consist of short-term municipal notes and short-term municipal loans and obligations, including municipal paper, master demand notes and variable rate demand notes. Shortterm municipal notes include Tax Anticipation Notes (notes issued in anticipation of the receipt of tax funds) and Revenue Anticipation Notes (notes issued in anticipation of the receipt of revenues other than taxes or bond placements). Municipal paper typically consists of the very shortterm unsecured negotiable promissory notes of municipal issuers.

A municipal master demand note is an arrangement under which the Fund participates in a note agreement between a bank acting on behalf of its clients and a municipal borrower, whereby amounts maintained by the Fund in an account with the bank are provided to the municipal borrower and payments of interest and principal

on the note are credited to the Fund's account. Interest rates on master demand notes typically are tied to market interest rates, and therefore may fluctuate daily. The amounts borrowed under these notes may be repaid at any time by the borrower without penalty, and must be repaid upon the demand of the Fund. Variable rate demand notes are taxexempt obligations which are payable by the municipal issuer at par value plus accrued interest on demand by the Fund (generally with
three to ten days' notice). If no demand is made, the note will mature on a specified date from one to thirty years from its issuance. Payment on the note may be backed by a standby letter of credit. As with a master demand note, the yield on
a variable rate demand note is adjusted automatically to reflect a particular market rate. Variable rate demand notes typically may be called by the issuer prior to maturity.

Where short-term municipal securities are rated, the Fund will limit its investments to "high quality" short term securities (i.e., for shortterm municipal notes, ratings of AA or better by S&P or MIG 2 or better by Moody's; for municipal paper, ratings of A2 or better by S&P or Prime-2 or better by Moody's). Unrated shortterm municipal securities will be included within the Fund's overall limitation on investments in unrated securities.
This limitation provides that not more than 20% of the Fund's total assets may be invested in unrated municipal securities, exclusive of unrated securities which are guaranteed as to principal and interest by the full faith and credit of the United States government or are issued by an issuer having outstanding an issue of municipal bonds within one of the four highest ratings classifications.

From time to time on a temporary basis, the Fund may invest in fixed-income obligations on which the interest is subject to Federal income tax. Except when the Fund is in a "defensive" investment
position, it will not purchase a taxable security if, as a result, more than 20% of its total assets would be invested in taxable securities. This limitation is a fundamental policy of the Fund, that is, it may not be

changed without a majority vote of the shareholders of the outstanding securities of the Fund. Temporary taxable investments of the Fund may consist of U.S. government securities, commercial paper rated A-1 by S&P or Prime1 by Moody's, corporate obligations rated AAA or AA by S&P or Aaa or Aa by Moody's, certificates of deposit or bankers' acceptances of domestic banks or thrift institutions with at least $1 billion in assets, or repurchase agreements with certain banks or dealers. Repurchase agreements may be entered into with respect to any securities eligible for investment by the Fund, including municipal securities.

Repurchase Agreements. The Fund may enter into repurchase agreements with banks which are the issuers of instruments acceptable for purchase by the Fund and with certain dealers on the Federal Reserve Bank of New York's list of reporting dealers. A repurchase agreement is a contract under which the buyer of a security simultaneously commits to resell the security to the seller at an agreed upon price on an agreedupon date. Under the terms of a typical repurchase agreement, the Fund would acquire an underlying debt obligation for a relatively short period (usually not more than seven days) subject to an obligation of the seller to repurchase, and the Fund to resell, the obligation at an agreed-upon price and time, thereby determining the yield during the Fund's holding period. This arrangement results in a fixed rate of return that is not subject to market fluctuations during the Fund's holding period. Under each repurchase agreement, the selling institution will be required to maintain the value of the securities subject to the repurchase agreement at not less than their repurchase price. Repurchase agreements could involve certain risks in the event of default or insolvency of the seller, including possible delays or restrictions upon the Fund's ability to dispose of the underlying securities, the risk of a possible decline in the value of the underlying securities during the period in which the Fund seeks to assert its rights to them, the risk of incurring expenses associated with asserting those rights and the risk of losing all or part of the income from the agreement. SBMFM , acting under the supervision of the Fund's Board of Directors, reviews on an ongoing basis the value of the collateral and the creditworthiness of those banks and dealers with which the Fund enters into repurchase agreements to evaluate potential risk. The income from a repurchase agreement with respect to a municipal security would not be tax exempt. The Fund may not enter into a repurchase agreement having more than seven days remaining to maturity if, as a result, such agreements, together with any other securities which are illiquid or not readily marketable, would exceed 10% of the net assets of the Fund.

Investment Restrictions

The Fund has adopted the following investment restrictions for the protection of shareholders. Restrictions 1 through 8 below are fundamental policies, and may not be changed without a majority vote of the outstanding shares of the Fund, defined as the lesser of (a) 67% of the Fund's shares present at a meeting, if the holders of more than 50% of the outstanding shares of the Fund are present or represented by proxy, or (b) more than 50% of the Fund's outstanding shares. The remaining restrictions may be changed by the Board of Directors at any time.

The Fund will not:

1. With respect to 75% of the value of its total assets, invest more than 5% of its total assets in securities of any one issuer, except securities issued or guaranteed by the United States government, or purchase more than 10% of the outstanding voting securities of such issuer.

2. Issue senior securities as defined in the 1940 Act and any rules and orders thereunder, except
insofar as the Fund may be deemed to have issued senior securities by reason of: (a) borrowing money or purchasing securities on a when issued or delayeddelivery basis; (b)

purchasing or selling futures contracts and options on futures contracts and other similar instruments; and (c) issuing separate classes of shares.

3. Invest more than 25% of its total assets in securities, the issuers of which are in the same industry. For purposes of this limitation, U.S. government securities and securities of state or municipal governments and their political subdivisions are not considered to be issued by members of any industry.

4. Borrow money, except that the Fund may borrow from banks for temporary or emergency (not leveraging) purposes, including the meeting of redemption requests which might otherwise require the untimely disposition of securities, in an amount not exceeding 10% of the value of the Fund's total assets (including the amount borrowed) valued at market less liabilities (not including the amount borrowed) at the time the borrowing is made. Whenever borrowings exceed 5% of the value of the Fund's total assets, the Fund will not make additional investments.

5. Make loans. This restriction does not apply to: (a) the purchase of debt obligations in which the Fund may invest consistent with its investment objective and policies; (b) repurchase agreements; and (c) loans of its portfolio securities.

6. Engage in the business of underwriting securities issued by other persons, except to the extent that the Fund may technically be deemed to be an underwriter under the Securities Act of 1933, as amended, in disposing of portfolio securities. 7. Purchase or sell real estate, real estate mortgages, real estate investment trust securities, commodities or commodity contracts, but this shall not prevent the Fund from: (a) investing in securities of issuers engaged in the real estate business and securities which are secured by real estate or interests therein; (b) holding or selling real estate received in connection with securities it holds; or (c) trading in futures contracts and options on futures contracts. 8. Purchase any securities on margin (except for such short term credits as are necessary for the clearance of purchases and sales of portfolio securities) or sell any

securities short (except against the box). For purposes of this restriction, the deposit or payment by the Fund of initial or maintenance margin, in connection with futures contracts and related options and options on securities, is not considered to be the purchase of a security on margin. 9. Purchase or otherwise acquire any security if, as a result, more than 15% of its net assets would be invested in securities that are illiquid.

10. Invest in oil, gas or other mineral exploration or development programs.

11. Purchase securities of other investment companies, except in connection with a merger, consolidation, acquisition or reorganization.

12. Purchase or retain securities of any issuer if the officers or Directors of the Fund, its advisers or managers own individually more than 1/2 of 1% of the securities of such issuer, or together own more than 5% of the securities of such issuer.

Certain restrictions listed above permit the Fund to engage in investment practices that the Fund does not currently pursue. The Fund has no present intention of altering its current investment practices as otherwise described in the Prospectus and this Statement of Additional Information and any future change in those practices would require the approval of the Board of Directors and appropriate notice to shareholders.

If a percentage restriction is complied with at the time of investment, a later increase or decrease in the percentage of assets resulting from a change in values of portfolio securities or in the amount of the Fund's assets will not constitute a violation of such restriction. In order to permit the sale of the Fund's shares in certain states, the Fund may make commitments more restrictive than the restrictions described above. Should the Fund determine that any such commitment is no longer in the best interests of the Fund and its shareholders it will revoke the commitment by terminating sales of its shares in the state involved.

Portfolio Transactions

The Fund does not anticipate that it will incur a significant amount of brokerage commissions, because municipal securities generally are traded on a "net" basis, that is, at principal amount without the addition or deduction of a stated brokerage commission, although the net price usually includes a profit to the dealer. The Fund will deal directly with the selling or purchasing principal without incurring charges for the services of a broker on its behalf unless it is determined that a better price or execution may be obtained by utilizing the services of a broker. The Fund also will purchase portfolio securities in underwritings where the price includes a fixed underwriter's concession or discount. Money market instruments may be purchased directly from the issuer at no commission or discount. The Fund has paid no brokerage commissions since its commencement of operations.

In arranging for the purchase and sale of portfolio securities, SBMFM may employ or deal with such brokers or dealers, including Smith Barney, as may in its best judgment provide prompt and reliable execution of the transaction at favorable security prices and reasonable commission rates, if any. In selecting broker dealers for particular portfolio transactions, SBMFM considers all relevant factors, including the execution capabilities required by the transaction, the importance of speed, efficiency or confidentiality, familiarity with sources from whom or to whom particular securities might be purchased or sold, as well as other relevant matters.

SBMFM may select broker-dealers which provide it with research services and may cause the Fund to pay such broker dealers commissions for effecting portfolio transactions in excess of the commissions other broker dealers may have charged, provided it has determined in good faith that such commissions are reasonable in relation to the value of the brokerage and/or research services provided.

Securities will be purchased and sold principally in response to the Fund's current evaluation of an issuer's ability to meet its debt obligations in the future, and to the

Fund's current assessment of general economic conditions as well as future changes in the levels of interest rates on municipal securities of varying maturities.

The Fund also may engage to a limited extent in portfolio trading consistent with its investment objective. Securities may be sold in anticipation of a market decline (a rise in interest rates) or purchased in anticipation of a market rise (a decline in interest rates) and later sold. In addition, a security may be sold and another of comparable quality purchased at approximately the same time to take advantage of what the Fund believes to be a temporary disparity in the normal yield relationship between the two securities. These yield disparities may occur for reasons not directly related to the investment quality of a particular issue or the general movement of interest rates, such as changes in the overall demand for, or supply of, various types of municipal securities.

Portfolio securities will not be purchased from or through Smith Barney or any affiliated person (as defined in the 1940 Act) of Smith Barney, when such entities are acting as principal, except pursuant to the terms and conditions of exemptive rules or orders promulgated by the SEC. Under the 1940 Act, the Fund may not purchase portfolio securities from any underwriting syndicate of which Smith Barney or an affiliate of Smith Barney is a member except under certain limited conditions set forth in Rule 10f-3 under the 1940 Act. These conditions relate to, among other things, the terms of and reasonableness of the dealer spread, the amount of municipal securities which may be purchased of any one issuer, and the amount of the Fund's assets which may be invested in a particular issue. The Rule also requires that any purchases made subject to its provisions be reviewed at least quarterly by the Fund's Board of Directors, including a majority of the Fund's Directors who are not interested persons of the Fund (as defined under the 1940 Act).

While investment decisions for the Fund are made independently from those of the other accounts managed by SBMFM, investments of the type the Fund may make also may be made by such other accounts. When the Fund and one or more other accounts managed by SBMFM are prepared to invest in, or desire to dispose of, the same security, available investments or opportunities for sales will be allocated in a manner believed by SBMFM to be equitable to each. In some cases, this procedure may adversely affect the price paid for or the amount received by the Fund or the size of the position obtained or disposed of by the Fund. Portfolio Turnover

The Fund's portfolio turnover rate (the lesser of purchases or sales of portfolio securities during the year, excluding purchases or sales of short term securities, divided by the monthly average value of portfolio securities) generally is not expected to exceed 100%, but the portfolio turnover rate will not be a limiting factor whenever the Fund deems it desirable to sell or purchase securities. Securities may be sold in anticipation of a rise in interest rates (market decline) or purchased in anticipation of a decline in interest rates (market rise) and later sold. In addition, a security may be sold and another security of comparable quality may be purchased at approximately the same time in order to take advantage of what the Fund believes to be a temporary disparity in the normal yield relationship between the two securities. These yield disparities may occur for reasons not directly related to the investment quality of particular issues or the general movement of interest rates, such as changes in the overall demand for or supply of various types of tax exempt securities. For the fiscal years ending May 31, 1994 and 1995, the Fund's portfolio turnover rates were 49% and 21%, respectively. MUNICIPAL BONDS

General Information

Municipal bonds generally are understood to include debt obligations issued to obtain funds for various public purposes, including the construction of a wide range of public facilities, refunding of outstanding obligations, payment of general operating expenses and extensions of loans to public institutions and facilities. Private activity bonds issued by or on behalf of public authorities to obtain funds to provide privately operated facilities are included within the term municipal bonds if the interest paid thereon qualifies as excludable from gross income (but not necessarily from alternative minimum taxable income) for Federal income tax purposes in the opinion of bond counsel to the issuer.

The yields on municipal bonds are dependent upon a variety of factors, including general economic and monetary conditions, general money market conditions, general conditions of the municipal bond market, the financial condition of the issuer, the size of a particular offering, the maturity of the obligation offered and the rating of the issue. Municipal bonds are also subject to the provisions of bankruptcy, insolvency and other laws affecting the rights and remedies of creditors, such as the Federal Bankruptcy Code, and laws, if any, that may be enacted by Congress or state legislatures extending the time for payment of principal or interest, or both, or imposing other constraints upon enforcement of the obligations or upon the ability of municipalities to levy taxes. There is also the possibility that as a result of litigation or other conditions, the power or ability of any one or more issuers to pay, when due, principal of and interest on its, or their, municipal bonds may be materially affected.

For the purpose of certain requirements under the 1940 Act, and various of the investment restrictions applicable to the Fund, identification of the "issuer" of a municipal security depends on the terms and conditions of the security. When the assets and revenues of a political subdivision are separate from those of the government which created the subdivision, and the security is backed only by the assets and revenues of the subdivision, the subdivision would be deemed to be the sole issuer. Similarly, in the case of a private activity bond, if that bond is backed only by the assets and revenues of the nongovernmental user, then the nongovernmental user would be deemed to be the sole issuer. If, however, in either case, the creating government or some other entity guarantees the security, the guarantee would be considered a separate security and would be treated as an issue of the government or other agency.

Interest on certain types of private activity bonds (generally small issues and obligations to finance certain exempt facilities which may be leased to or used by persons other than the issuer) will not be excluded from gross income for Federal income tax purposes when received by "substantial users" or persons related to "substantial users" as defined in the Internal Revenue Code of 1986, as amended (the "Code"). The term "substantial user" generally includes any "non-exempt person" who regularly uses in his or her trade or business as part of a facility financed from the proceeds of private activity bonds. The Fund may invest periodically in private activity bonds and, therefore, may not be an appropriate investment for entities which are substantial users of facilities financed by such bonds or "related persons" of substantial users. Generally, an individual will not be a related person of a substantial user under the Code unless the person or his or her immediate family (spouse, brothers, sisters, ancestors and lineal descendants) owns directly or indirectly in the aggregate more than 50% in value of the equity of the substantial user, although special related persons rules apply when the substantial user is a partnership or Subchapter S corporation.

Special Considerations Relating to Arizona Municipal Securities. Some of the significant financial considerations relating to investments in Arizona municipal securities are summarized below. The following information constitutes only a brief summary, does not purport to be a complete description, and is qualified by reference to the information from official statements relating to securities offerings of the issuers.

Arizona's population increased by approximately 35% during the 10-year period from 1980 to 1990, ranking Arizona as the third fastest growing state in the country for the period. The rate of growth, however, has slowed substantially in recent years. The State's principal economic sectors include services, manufacturing dominated by electrical, transportation and military equipment, government, tourism and the military. Arizona's economy, however, has been adversely affected by problems in the real estate industry, including an excessive supply of commercial, residential and retail buildings and severe problems with Arizona-based financial institutions, many of which have been placed under the control of the Resolution Trust Corporation. In addition, current and proposed reductions in Federal military expenditures are expected to cause difficulties with the State's economy. These factors are expected to negatively impact Arizona's economy for the foreseeable future. However, per-person retail sales, adjusted for inflation, which had fallen for five consecutive years, increased by 3% in 1992 indicating a slight turnaround in the state's economy. Also, State unemployment rates have remained below the national average since 1991.

Arizona is required by law to maintain a balanced budget. To achieve this objective, the State has, in the past, utilized a combination of spending reductions and tax increases. The Arizona legislature was able to balance the State's budget for the fiscal year ending June 30, 1994 without enacting any income tax increases. For the fiscal year ended June 30, 1995, the State's budget had a slight surplus and, effective January 1, 1996, the State income taxes will be lowered.

Arizona's state constitution limits the amount of debt that may be contracted by the State to $350,000. However, certain other issuers have the power to issue obligations which affect the whole or large portions of the State. For example, the Transportation Board of the State of Arizona Department of Transportation may issue debt for highways which is paid from revenues generated from state gasoline taxes. Salt River Project Agricultural & Improvement District, an agricultural improvement district that operates the Salt River Project (a Federal reclamation project and an electric system which generates, purchases, and distributes electric power to residential, commercial, industrial, and agricultural power users in a 2,900 squaremile service area around Phoenix), may issue debt payable from a number of sources.

Arizona's state constitution also restricts the debt of certain of the State's political subdivisions. No county, city, town, school district, or other municipal corporation of the State may for any purpose become indebted in any manner in an amount exceeding six percent of the taxable property in such county, city, town, school district, or other municipal corporation without the assent of a majority
of the qualified electors thereof voting at an election provided by law to be held for that purpose; provided, however, that (a) under no circumstances may any county or school district of the State become indebted in an amount exceeding fifteen percent (or thirty percent in the case of a
unified school district) of such taxable property and (b) any incorporated city or town of the State with such assent may be allowed to become indebted up to a twenty percent additional amount for supplying such city or town with (i) water, artificial light, or sewers, when the works for supplying such water, light, or sewers are or shall be owned and controlled by the municipality, (ii) the acquisition and development by the incorporated city or town of land or interests therein for open space preserves, parks, playgrounds and recreational facilities, or (iii) the construction, reconstruction, improvement or acquisition of streets, highways or bridges or interests in land for rightsof-way for streets, highways or bridges. Irrigation, power, electrical, agricultural improvement, drainage, flood control and tax levying public improvement districts are, however, exempt from such restrictions of the constitution.

Annual property tax levies for the payment of general obligation bonded indebtedness of political subdivisions are unlimited as to rate or amount. Other obligations may be issued by such entities, sometimes without an election, which are payable from, among other sources, project revenues, special assessments and excise taxes.

Arizona's local governmental entities are subject to certain other limitations on their ability to assess taxes and levies which could affect their ability to meet their financial obligations. Subject to certain exceptions, the maximum amount of property taxes levied by any Arizona county, city, town or community college district for their operations and maintenance expenditures cannot exceed the amount levied in a preceding year by more than two percent. Certain taxes are specifically exempt from this limit, including taxes levied for debt service payments.

PURCHASE OF SHARES

Volume Discounts

The schedule of sales charges on Class A shares described in the Prospectus applies to purchases made by any "purchaser,'' which is defined to include the following: (a) an individual; (b) an individual's spouse and his or her children purchasing shares for his or her own account; (c) a trustee or other fiduciary purchasing shares for a single trust estate or single fiduciary account; (d) a pension, profit sharing or other employee benefit plan qualified under Section 401(a) of the Code and qualified employee benefit plans of employers who are "affiliated persons'' of each other within the meaning of the 1940 Act; (e) taxexempt organizations enumerated in Section 501(c)(3) or (13) of the Code; and (f) a trustee or other professional fiduciary (including a bank, or an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended) purchasing shares of the Fund for one or more trust estates or fiduciary accounts. Purchasers who wish to combine purchase orders to take advantage of volume discounts should contact a Smith Barney Financial Consultant.

Combined Right of Accumulation

Reduced sales charges, in accordance with the schedule in the Prospectus, apply to any purchase of Class A shares if the aggregate investment in Class A shares of the Fund and in Class A shares of other funds of the Smith

Barney Mutual Funds that are offered with a sales charge, including the purchase being made, of any purchaser is $25,000 or more. The reduced sales charge is subject to confirmation of the shareholder's holdings through a check of appropriate records. The Fund reserves the right to terminate or amend the combined right of accumulation at any time after written notice to shareholders. For further information regarding the right of accumulation, shareholders should contact a Smith Barney Financial Consultant.

Determination of Public Offering Price

The Fund offers its shares to the public on a continuous basis. The public offering price for a Class A and Class Y share of the Fund is equal to the net asset value per share at the time of purchase, plus for Class A shares an initial sales charge based on the aggregate amount of the investment. The public offering price for a Class B and Class C share (and Class A share purchases, including applicable rights of accumulation, equaling or exceeding $500,000), is equal to the net asset value per share at the time of purchase and no sales charge is imposed at the time of purchase. A contingent deferred sales charge ("CDSC''), however, is imposed on certain redemptions of Class B and Class C shares, and Class A shares when purchased in amounts exceeding $500,000. The method of computation of the public offering price is shown in the Fund's financial statements, incorporated by reference in their entirety into this Statement of Additional Information.

REDEMPTION OF SHARES

The right of redemption may be suspended or the date of payment postponed (a) for any period during which the New York Stock Exchange, Inc. ("NYSE'') is closed (other than for customary weekend and holiday closings), (b) when trading in markets the Fund normally utilizes is restricted, or an emergency exists, as determined by the Securities and Exchange Commission ("SEC"), so that disposal of the Fund's investments or determination of net asset value is not reasonably practicable or (c) for such other periods as the SEC by order may permit for protection of the Fund's shareholders.

Distribution in Kind

If the Board of Directors of the Fund determines that it would be detrimental to the best interests of the remaining shareholders of the Fund to make a redemption payment wholly in cash, the Fund may pay, in accordance with SEC rules, any portion of a redemption in excess of the lesser of $250,000 or 1% of the Fund's net assets by a distribution in kind of portfolio securities in lieu of cash. Securities issued as a distribution in kind may incur brokerage commissions when shareholders subsequently sell those securities.

Automatic Cash Withdrawal Plan

An automatic cash withdrawal plan (the "Withdrawal Plan'') is available to shareholders who own shares with a value of at least $10,000 and who wish to receive specific amounts of cash monthly or quarterly. Withdrawals of at least $50 may be made under the Withdrawal Plan by redeeming as many shares of the Fund as may be necessary to cover the stipulated withdrawal payment. Any applicable CDSC will not be waived on amounts withdrawn by shareholders that exceed 1.00% per month of the value of a shareholder's shares at the time the Withdrawal Plan commences. (With respect to Withdrawal Plans in effect prior to November 7, 1994, any applicable CDSC will be waived on amounts withdrawn that do not exceed 2.00% per month of the value of a shareholder's shares at the time the Withdrawal Plan commences.) To the extent withdrawals exceed dividends, distributions and appreciation of a shareholder's investment in the Fund, there will be a reduction in the value of the shareholder's investment, and continued withdrawal payments will
reduce the shareholder's investment and may ultimately exhaust it. Withdrawal payments should not be considered as income from investment in the Fund. Furthermore, as it generally would not be advantageous to a shareholder to make additional investments in

the Fund at the same time he or she is participating in the Withdrawal Plan, purchases by such shareholders in amounts of less than $5,000 ordinarily will not be permitted.

Shareholders who wish to participate in the Withdrawal Plan and who hold their shares in certificate form must deposit their share certificates with TSSG as agent for Withdrawal Plan members. All dividends and distributions on shares in the Withdrawal Plan are reinvested automatically at net asset value in additional shares of the Fund. Withdrawal Plans should be set up with a Smith Barney Financial Consultant. A shareholder who purchases shares directly through TSSG may continue to do so and applications for participation in the Withdrawal Plan must be received by TSSG no later than the eighth day of the month to be eligible for participation beginning with that month's withdrawal. For additional information, shareholders should contact a Smith Barney Financial Consultant.

DISTRIBUTOR

Smith Barney serves as the Fund's distributor on a best efforts basis pursuant to a written agreement (the "Distribution Agreement'') which was most recently approved by the Fund's Board of Directors on July 20, 1994. For the fiscal years ended May 31, 1993, 1994 and 1995, Shearson Lehman Brothers (the Fund's distributor prior to Smith Barney) and/or Smith Barney received, $218,862, $77,285 and $50,874, respectively, in sales charges from the sale of the Fund's Class A shares, and did not reallow any portion thereof to dealers. From the fiscal year ended May 31, 1995, Smith Barney recieved $99 representing CDSC on redemptions of the Fund's Class A shares.For the period from November 6, 1992 through May 31, 1993, and the fiscal years ended May 31, 1994 and 1995, Shearson Lehman Brothers and its successor, Smith Barney, received $135, $19,460 and $29,071, respectively, representing CDSC on redemptions of the Fund's Class B shares.

For the fiscal year ended May 31, 1995, Smith Barney incurred distribution expenses totaling approximately $157,265, consisting of approximately $2,000 for advertising, $3,378 for printing and mailing of prospectuses, $12,960 for support services, $120,000 to Smith Barney Financial Consultants, and $18,903, respectively in accruals for interest on the excess of Smith Barney expenses incurred in distributing the Fund's shares over the sum of the distribution fees and CDSC received by Smith Barney from the Fund.

When payment is made by the investor before settlement date, unless otherwise noted by the investor, the funds will be held as a free credit balance in the investor's brokerage account and Smith Barney may benefit from the temporary use of the funds. The investor may designate another use for the funds prior to settlement date, such as an investment in a money market fund (other than Smith Barney Exchange Reserve Fund) of the Smith Barney Mutual Funds. If the investor instructs Smith Barney to invest the funds in a Smith Barney money market fund, the amount of the investment will be included as part of the average daily net assets of both the Fund and the money market fund, and affiliates of Smith Barney that serve the funds in an investment advisory or administrative capacity will benefit from the fact that by receiving fees from both such investment companies for managing these assets, computed on the basis of their average daily net assets. The Fund's Board of Directors has been advised of the benefits to Smith Barney resulting from these settlement procedures and will take such benefits into consideration when reviewing the Advisory, Administration and Distribution Agreements for continuance.

Distribution Arrangements

To compensate Smith Barney for the services it provides and for the expense it bears under the Distribution Agreement, the Fund has adopted a services and distribution plan (the "Plan'') pursuant to Rule 12b-1 under the 1940 Act. Under the Plan, the Fund pays Smith Barney a service fee, accrued daily and paid monthly, calculated at the annual rate of 0.15% of the value of the Fund's average daily net assets attributable to the Class A, Class B and Class C shares. In addition, the Fund pays Smith Barney a distribution fee primarily intended to compensate Smith Barney for its initial expense of paying Financial Consultants a commission upon sales of the respective shares. The Class B distribution fee is calculated at the annual rate of 0.50% of the value of the Fund's average net assets attributable to the shares of the Class. The Class C distribution fee is calculated at the annual rate of 0.55% of the value of the Fund's average net assets attributable to the shares of the Class.

For the fiscal years ended May 31, 1995, the Fund's Class A, Class B and Class C shares paid $64,130, $30,291 and $138, respectively, in service fees. For the same period, the Fund's Class B and Class C shares paid and $100,968 and $507, respectively, in distribution fees.

Under its terms, the Plan continues from year to year, provided such continuance is approved annually by vote of
the Fund's Board of Directors, including a majority of the Independent Directors. The Plan may not be amended to increase the amount of the
service and distribution fees without shareholder approval, and all material amendments of the Plan also must be approved by the Directors and the Independent Directors in the manner described above. The Plan may be terminated with respect to a Class at any time, without penalty, by vote of a majority of the Independent Directors or by a vote of a majority of the outstanding voting securities of the Class (as defined in the 1940 Act). Pursuant to the Plan, Smith Barney will provide the Board of Directors with periodic reports of amounts expended under the Plan and the purpose for which such expenditures were made.

VALUATION OF SHARES

Each Class' net asset value per share is

calculated on each day, Monday through Friday, except days on which the NYSE is closed. The NYSE currently is scheduled to be closed on New Year's Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving and Christmas, and on the preceding Friday or subsequent Monday when one of these holidays falls on a
Saturday or Sunday, respectively. Because of the differences in distribution fees and Classspecific expenses, the per share net asset value of each Class may differ. The following is a description
of the procedures used by the Fund in valuing its assets.

The valuation of the Fund's assets is made by SBMFM after consultation with an independent pricing service (the "Service'') approved by the Board of Directors. When, in the judgment of the Service, quoted bid prices for investments are readily available and are representative of the bid side of the market, these investments are valued at the mean between the quoted bid and asked prices. Investments for which, in the judgment of the Service, there is no readily obtainable market quotation (which may constitute a majority of the portfolio securities) are carried at fair value as determined by the Service. For the most part, such investments are liquid and may be readily sold. The Service may employ electronic data processing techniques and/or a matrix system to determine valuations. The procedures of the Service are reviewed periodically by the officers of the Fund under the general supervision and responsibility of the Board of Directors, which may replace any such Service at any time if it determines it to be in the best interests of the Fund to do so.

EXCHANGE PRIVILEGE

Except as noted below, shareholders of any Smith Barney Mutual Fund may exchange all or part of their shares for shares of the same Class of other Smith Barney Mutual Funds, to the extent such shares are offered for sale in the
shareholder's state of residence, as listed in

the Prospectus, on the basis of relative net asset value per share at the time of exchange as follows:

A. Class A shares of any fund purchased with a sales charge may be exchanged for Class A shares of any of the other funds, and the sales charge differential, if any, will be applied. Class A shares of any fund may be exchanged without a sales charge for shares of the funds that are offered without a sales charge. Class A shares of any fund purchased without a sales charge may be exchanged for shares sold with a sales charge, and the applicable sales charge will be applied.
B. Class A shares of any fund acquired by a previous exchange of shares purchased with a sales charge may be exchanged for Class A shares of any of the other funds, and the sales charge differential, if any, will be applied.
C. Class B shares of any fund may be exchanged without a sales charge. Class B shares of the Fund exchanged for Class
B shares of another fund will be subject to the higher applicable CDSC of the two funds and, for purposes of calculating CDSC rates and conversion periods, will be deemed to have been held since the date the shares being exchanged were purchased. Dealers other than Smith Barney must notify TSSG of the investor's prior ownership of Class A shares of
Smith Barney High Income Fund and the account number in order to accomplish an exchange of shares of Smith Barney High Income Fund under paragraph B above.
The exchange privilege enables shareholders to acquire shares of the same Class in a fund with different investment objectives when they believe that a shift between funds is an appropriate investment decision. This privilege is available to shareholders residing in any state in which the fund shares being acquired may legally be sold. Prior to any exchange, the shareholder should obtain and review a copy of the current prospectus of each fund into which an exchange is being considered. Prospectuses may be obtained from a Smith Barney Financial Consultant.
Upon receipt of proper instructions and all

necessary supporting documents, shares submitted for exchange are redeemed at the then-current net asset value and subject to any applicable CDSC, the proceeds are immediately invested, at a price as described above, in shares of the fund being acquired. Smith Barney reserves the right to reject any exchange request. The exchange privilege may be modified or terminated at any time after written notice to shareholders. PERFORMANCE DATA

From time to time, the Fund may quote yield or total return of a Class in advertisements or in reports and other communications to shareholders. The Fund may include comparative performance information in advertising or marketing the Fund's shares. Such performance information may include the following industry and financial publications: Barron's, Business Week, CDA Investment Technologies, Inc., Changing Times, Forbes, Fortune, Institutional Investor, Investors Daily, Money Morningstar Mutual Fund Values, The New York Times, USA Today and The Wall Street Journal. To the extent any advertisement or sales literature of the Fund describes the expenses or performance of any Class, it will also disclose such information for the other Classes. Yield

A Class' 30-day yield figure described below is calculated according to a formula prescribed by the SEC.

The formula can be expressed as follows:

YIELD =2 [(a-b +1)6-1]

cd

Where: a = dividends and interest earned during the period.

b = expenses accrued for the period (net of reimbursement).

c = the average daily number of shares outstanding during the period that were entitled to receive dividends.

d = the maximum offering price per share on the last day of the period.

For the purpose of determining the interest earned (variable "a'' in the formula) on debt obligations that were purchased by the

Fund at a discount or premium, the formula generally calls for amortization of the discount or premium. The amortization schedule will be adjusted monthly to reflect changes in the market values of the debt obligations.

The Fund's equivalent taxable 30-day yield for a Class of shares is computed by dividing that portion of the Class' 30day yield which is tax exempt by one minus a stated income tax rate and adding the product to that portion, if any, of the Class' yield that is not tax exempt.

The yields on municipal securities are dependent upon a variety of factors, including general economic and monetary conditions, conditions of the municipal securities market, size of a particular offering, maturity of the obligation offered and rating of the issue. Investors should recognize that in periods of declining interest rates the Fund's yield for each Class of shares will tend to be somewhat higher than prevailing market rates, and in periods of rising interest rates the Fund's yield for each Class of shares will tend to be somewhat lower. Also, when interest rates are falling, the inflow of net new money to the Fund from the continuous sale of its shares will likely be invested in portfolio instruments producing lower yields than the balance of the Fund's portfolio, thereby reducing the current yield of the Fund. In periods of rising interest rates, the opposite can be expected to occur. The Fund's yield for Class A, Class B and Class C shares for the 30-day period ended May 31, 1995 was 4.94%, 4.64% and 4.48%, respectively. The equivalent taxable yield for Class A, Class B and Class C shares for that same period was 7.55%, 7.09% and 6.85%, respectively, assuming the payment of Federal income taxes at a rate of 31% and Arizona taxes at a rate of 5.20 %.

Average Annual Total Return

"Average annual total return'' figures described below are computed according to a formula prescribed by the SEC. The formula can

be expressed as follows: P (1+T) n = ERV
Where: P = a hypothetical initial payment of $1,000. T = average annual total return. n = number of years.
ERV = Ending Redeemable Value of a hypothetical $1,000 investment made at the beginning of a 1-, 5- or 10-year period at the end of the 1 , 5- or 10-year period (or fractional portion thereof), assuming reinvestment of all dividends and distributions.
The following total return figures assume that the maximum 4.00% sales charge has been deducted from the investment at the time of purchase and have been restated to show the change in the maximum sales charge. The average annual total return for Class A shares was as follows for the period indicated:

5.00% for the one-year period beginning June 1, 1994 through May 31, 1995.

7.53% per annum during the five-year period beginning on June 1, 1990 through May 31, 1995.
7.34% per annum during the period from the Fund's commencement of operations on June 1, 1987 through May 31,1995.
These total return figures assume that the maximum 4.00% sales charge assessed by the Fund has been deducted from the investment at the time of purchase. Had the investment advisory, sub investment advisory and/or administration fees not been partially waived (and assuming that the maximum 4.00% sales charge had not been deducted), the Class A's average annual total return would have been 9.13%, 7.97 % and 6.20%, respectively, for those same periods.

The average annual total return for Class B shares was as follows for the periods indicated:

4.28% for the one-year period from June 1, 1994 through May 31, 1995.

5.89% per annum for the period from November 6, 1992 through May 31, 1995.

These average annual total return figures assume that the applicable maximum CDSC has been deducted from the investment. Had the investment advisory and sub investment advisory and/or administration fees not been partially waived and the CDSC had not been deducted, the average annual total return on the Fund's Class B shares would have been 8.52% and 6.67%, respectively, for those same periods.

Aggregate Total Return

Aggregate total return figures described below represent the cumulative change in the value of an investment in the Class for the specified period and are computed by the following formula:

ERV-P
P

Where: P = a hypothetical initial payment of $10,000.
ERV = Ending Redeemable Value of a hypothetical $10,000 investment made at the beginning of the 1-, 5- or 10-year period at the end of the 1-, 5- or 10-year period (or fractional portion thereof), assuming reinvestment of all dividends and distributions.

The aggregate total return for Class A shares was as follows for the periods indicated (reflecting the partial waiver of the investment advisory and sub investment advisory and/or administration fees):

5.00% for the one-year period beginning June 1, 1994 through May 31, 1995.

43.77% for the five-year period from June 1, 1990 through May 31, 1995; and

76.24% for the period from the Fund's commencement of operations on June 1, 1987 through May 31, 1995.

These aggregate total return figures assume that the maximum 4.00% sales charge assessed by the Fund has been deducted from the investment at the time of purchase. If the maximum sales charge had not been deducted at the time of purchase, the Fund's aggregate total return reflecting the partial waiver of the investment advisory and subinvestment advisory and/or administration fees for those same periods would have been 9.38%, 49.76% and 83.59%, respectively.

The Fund's aggregate total return for Class B shares was as follows for the periods indicated:

4.28% for the one-year period from June 1, 1994 through May 31, 1995.

15.81% for the period beginning on November 6, 1992 through May 31, 1995.

These figures assume that the maximum applicable CDSC has been deducted from the investment at the time of redemption. Had the investment advisory and sub investment advisory and/or administration fees had not been partially waived and the maximum CDSC had not been deducted at the time of redemption, the Fund's aggregate total returns for the same periods would have been 8.52% and 18.01%, respectively.

The Fund's aggregate total return for Class C shares was as follows for the period indicated:

11.10% for the period beginning December 8, 1994 through May 31, 1995.

This figure assumes that the maximun applicable CDSC has been deducted from the investment at the time of redemption. If the investment advisory and/or administration fees had not been partially waived and the maximum CDSC had not been deducted at the time of redemption, the Fund's aggregate total return for the same period would have been 12.04%.

It is important to note that the total return figures set forth above are based on historical earnings and are not intended to indicate future performance. Each Class' net investment income changes in response to fluctuation in

interest rates and the expenses of the Fund. Performance will vary from time to time depending upon market conditions, the composition of the Fund's portfolio and its operating expenses and the expenses exclusively attributable to the Class. Consequently, any given performance quotation should not be considered representative of the Class' performance for any specified period in the future. In addition, because performance will vary, it may not provide a basis for comparing an investment in the Class with certain bank deposits or other investments that pay a fixed yield
for a stated period of time. Investors comparing a Class' performance with that of other mutual funds should give consideration to the quality and maturity of the respective investment companies' portfolio securities.

TAXES

The following is a summary of selected Federal income tax considerations that may affect the Fund and its shareholders. The summary is not intended as a substitute for individual tax advice and investors are urged to consult their own tax advisors as to the tax consequences of an investment in the Fund.

As described above and in the Prospectus, the Fund is designed to provide investors with current income which is excluded from gross income for Federal income tax purposes and exempt from Arizona personal income taxes. The Fund is not intended to constitute a balanced investment
program and is not designed for investors seeking capital gains or maximum tax-exempt income irrespective of fluctuations in principal. Investment in the Fund would not be suitable for taxexempt institutions, qualified retirement plans, H.R. 10 plans and individual retirement accounts since such investors would not gain any additional tax benefit from the receipt of taxexempt income.

The Fund has qualified and intends to continue to qualify each succeeding year as a "regulated investment company'' under the Code. Provided the Fund (a) qualifies as a regulated investment company and (b) distributes to its shareholders at least 90% of the sum of its taxable net investment income and net realized short-term capital gains, and 90% of its tax-exempt interest income (reduced by certain expenses), the Fund will not be liable for Federal income taxes. Although the Fund expects to be relieved of substantially all Federal and state income or franchise taxes, depending upon the extent of its activities in states and localities in which its offices are maintained, in which its agents or independent contractors are located or in which it is otherwise deemed to be conducting business, that portion of the Fund's income which is treated as earned in any such state or locality could be subject to state and local tax. Any such taxes paid by the Fund would reduce the amount of income and gains available for distribution to shareholders. All net investment income and net capital gains earned by the Fund will be reinvested automatically in additional shares of the same Class of the Fund at net asset value, unless the shareholder elects to receive dividends and distributions in cash.

Because the Fund will distribute exempt-interest dividends, interest on indebtedness incurred by a shareholder to purchase or carry Fund shares is not deductible for Federal income and Arizona personal income tax purposes. If a shareholder receives an exempt interest dividend with respect to any share and if the share is held by the shareholder for six months or less, then, for Federal income tax purposes, any loss on the sale or exchange of such share may, to the extent of the exemptinterest dividend, be disallowed.
In addition, the Code may require a shareholder, if he or she receives exempt-interest dividends, to treat as Federal taxable income, a portion of certain otherwise nontaxable social security and railroad retirement benefit payments. Furthermore, that portion of any dividend paid by the Fund which represents income derived from private activity bonds held by the Fund may not retain its Federal taxexempt status in the hands of a shareholder who is a "substantial user'' of a facility financed by such bonds, or a "related

person'' thereof. Moreover, as noted in the Fund's Prospectus, (a) some or all of the Fund's dividends and distributions may be a specific tax preference item, or a component of an adjustment
item, for purposes of the Federal individual and corporate alternative minimum taxes, and (b) the receipt of Fund dividends and distributions may affect a corporate shareholder's Federal "environmental'' tax liability. In addition, the receipt of Fund dividends and distributions may affect a foreign corporate shareholder's Federal "branch profits'' tax liability and a Subchapter S corporation shareholder's Federal "excess net passive income'' tax liability. Shareholders should consult their own tax advisors to determine whether they are (a) "substantial users'' with respect to a facility or related to such users within the meaning of the Code and (b) subject to a Federal alternative minimum tax, the Federal environmental tax, the Federal "branch profits'' tax or the Federal "excess net passive income'' tax.
As described above and in the Prospectus, the Fund may invest in municipal bond index and interest rate futures contracts and options on these futures contracts. The Fund anticipates that these investment activities would not prevent the Fund from qualifying as a regulated investment company. As a general rule, these investment activities would increase or decrease the amount of longterm and shortterm capital gains or losses realized by the Fund and, accordingly, would affect the amount of capital gains distributed to the Fund's shareholders.

For Federal income tax purposes, gain or loss on municipal bond index and interest rate futures contracts and options on these futures contracts (collectively referred to as "section 1256 contracts'') is taxed pursuant to a special "mark tomarket'' system. These instruments are treated as if sold at the Fund's fiscal year end for their fair market value. As a result, the Fund will be recognizing gains or losses before they are actually realized. Gain or loss on section 1256 contracts generally is treated as 60% longterm capital gain or loss and 40% short-term capital gain or loss, and, accordingly, the mark tomarket system will generally affect the amount of capital gains or losses taxable to the Fund and the amount of distributions to a shareholder. Moreover, if the Fund invests in both section 1256 contracts and offsetting positions in those contracts, which together constitute a straddle, then the Fund may be required to defer receiving the benefit of certain recognized losses. The Fund expects that its activities with respect to section 1256 contracts and offsetting positions in those contracts will not cause it to be treated as recognizing a materially greater amount of capital gains than actually realized and will permit it to use substantially all of the losses of the Fund for the fiscal years in which the losses actually occur.

While the Fund does not expect to realize a significant amount of net long-term capital gains, any such gains will be distributed annually as described in the Prospectus. Such distributions ("capital gain dividends''), if any, will be taxable to shareholders as long-term capital gains, regardless of how long they have held Fund shares, and will be designated as capital gain dividends in a written notice mailed by the Fund to shareholders after the close of the Fund's prior taxable year. If a shareholder receives a capital gain dividend with respect to any share and if such share has been held by the shareholder for six months or less, then any loss (to the extent not disallowed pursuant to the other six month rule described above) on the sale or exchange of such share will be treated as a longterm capital loss to the extent of the capital gain dividend.

When a shareholder incurs a sales charge when acquiring shares of the Fund, disposes of those shares within 90 days and acquires shares in a mutual fund for which the otherwise applicable sales charge is reduced by reason of a reinvestment right (that is, exchange privilege), the original sales charge increases the shareholder's tax basis in the original shares only to the extent the otherwise applicable sales charge for the second acquisition is not reduced. The portion of the original sales charge that does not increase the shareholder's tax basis in the original shares would be treated as incurred with respect to the second acquisition and, as a general rule, would increase the shareholder's tax basis in the newly acquired shares. Furthermore, the same rule also applies to a disposition of the newly acquired shares made within 90 days of the second acquisition. This provision prevents a shareholder from immediately deducting the sales charge or CDSC by shifting his or her investment in a family of mutual funds.

Each shareholder will receive after the close of the calendar year an annual statement as to the Federal income tax and Arizona personal income tax status of his or her dividends and distributions from the Fund for the prior calendar year. These statements also will designate the amount of exempt interest dividends that is a preference item for purposes of the Federal individual and corporate alternative minimum taxes. Each shareholder also
will receive, if appropriate, various written notices after the close of the Fund's prior taxable year as to the Federal income tax status of his or her dividends and distributions which were received from the Fund during the Fund's prior taxable year. Shareholders should consult their tax advisors as to any other state and local taxes that may apply to these dividends and distributions. The dollar amounts of dividends excluded or exempt from Federal income taxation or Arizona personal income taxation and the dollar amount of dividends subject to Federal income taxation or Arizona personal income taxation, if any, will vary for each shareholder depending upon the size and duration of each shareholder's investment in the Fund. To the extent that the Fund earns taxable net investment
income, it intends to designate as taxable dividends the same percentage of each day's dividend as its actual taxable net investment income bears to its total net investment income earned on that day. Therefore, the percentage of each
day's dividend designated as taxable,
if any, may vary from dayto-day.
Investors considering buying shares of

the Fund just prior to a record date for a capital gain distribution should be aware that, regardless of whether the price of the Fund shares to be purchased reflects the amount of the forthcoming distribution payment, any such payment will be a taxable distribution payment. If a shareholder fails to furnish the Fund with a correct taxpayer identification number, fails to report fully dividend or interest income, or fails to certify that he or she has provided a correct taxpayer identification number and that he or she is not subject to "backup withholding,'' then the shareholder may be subject to a 31% "backup withholding'' tax with respect to (a) taxable dividends and distributions, if any, and (b) proceeds of any redemption of Fund shares. An individual's taxpayer identification number is his or her social security number. The "backup withholding'' tax is not an additional tax and may be credited against a shareholder's Federal income tax liability.

Income distributions, including interest income and gains realized by the Fund upon disposition of investments paid from a "qualified investment fund'' are exempt from the Arizona personal income tax to the extent attributable to Arizona Municipal Securities or to obligations that are free from state or local taxation under Arizona or Federal laws ("Tax Exempt Obligations''). A "qualified investment fund'' is any investment or trust company, or series of such investment company or trust registered with the SEC, which for the calendar year in which a distribution is paid, has no investments other than interestbearing obligations, obligations issued at a discount, financial options, futures, forward contracts or other similar financial instruments related to interestbearing obligations, obligations issued at a discount or related bond indices and cash and cash items, including receivables, and which has, at the close of each quarter of the taxable year, at least 80% of the aggregate principal amount of all of its investments, excluding financial options, futures, forward contracts, or other similar financial instruments related to interestbearing obligations, obligations issued at a discount or bond indices related there to as authorized under the Code, cash and cash items, such as receivables, invested in Arizona Municipal Securities or in Tax-Exempt Obligations. Furthermore, gains resulting from the redemption or sale of shares of the Fund to the extent attributable to interest or gain from obligations issued by Arizona or its local government entities or obligations which are free from state or local taxes under Arizona or Federal law, are exempt from the Arizona personal income tax.

The Arizona personal income tax is not applicable to corporations. For all corporations subject to the Arizona Corporation Business Tax, dividends and distributions from a "qualified investment fund'' are included in the net income tax base for purposes of computing the Corporation Business Tax. Furthermore, any gain upon the redemption or sale of Fund shares by a corporate shareholder is also included in the net income
tax base for purposes of computing the Corporation Business Tax.
The foregoing is only a summary of certain Federal and Arizona tax considerations generally affecting the Fund and its shareholders, and is not intended as a substitute for careful tax planning. Shareholders are urged to consult their tax advisors with specific reference to their own tax situations.

ADDITIONAL INFORMATION

The Fund was incorporated under the laws of the State of Maryland on May 4, 1987. The Fund commenced operations on June 1, 1987 under the name Hutton Municipal Series Inc. On December 29, 1988, March 31, 1992 July 30, 1993 and October 14, 1994, the Fund changed its name to SLH Municipals Series Fund Inc., Shearson Lehman Brothers Arizona Municipals Fund Inc., Smith Barney Shearson Arizona Municipals Fund Inc. and Smith Barney Arizona Municipals Fund Inc., respectively.

PNC, located at Chestnut and 17th Streets, Philadelphia, Pennsylvania 19103, serves as the Fund's custodian. Under the custody agreement, PNC holds the Fund's portfolio securities and keeps all necessary accounts and records. For its services, PNC receives a monthly fee based upon the month-end market value of securities held in custody and also receives securities transaction charges. The assets of the Fund are held under bank custodianship in compliance with the 1940 Act.

TSSG, located at Exchange Place, Boston, Massachusetts 02109, serves as the Fund's transfer agent. Under the transfer agency agreement, TSSG maintains the shareholder account records for the Fund, handles certain communications between shareholders and the Fund and distributes dividends and distributions payable by the Fund. For these services, TSSG receives a monthly fee computed on the basis of the number of shareholder accounts it maintains for the Fund during the

month and is reimbursed for out-of

pocket expenses.

FINANCIAL STATEMENTS

The Fund's Annual Report for the fiscal year ended May 31, 1995, accompanies this Statement of Additional Information and is incorporated herein by reference in its entirety.

APPENDIX

Description of S&P and Moody's

ratings: S&P Ratings for Municipal

Bonds

S&P's Municipal Bond ratings cover obligations of states and political subdivisions. Ratings are assigned to general obligation and revenue bonds. General obligation bonds are usually secured by all resources available to the municipality and the factors outlined in the rating definitions below are weighed in determining the rating. Because revenue bonds in general are payable from specifically pledged revenues, the essential element in the security for a revenue bond is the quantity and quality of the pledged revenues available to pay debt service.

Although an appraisal of most of the same factors that bear on the quality of general obligation bond credit is usually appropriate in the rating analysis of a revenue bond, other factors are important, including particularly the competitive position of the municipal enterprise under review and the basic security covenants. Although a rating reflects S&P's judgment as to the issuer's capacity for the timely payment of debt service, in certain instances it may also reflect a mechanism or procedure for an assured and prompt cure of a default, should one occur, i.e., an insurance program, Federal or state guarantee or the automatic withholding and use of state aid to pay the defaulted debt service.

AAA

Prime -- These are obligations of the highest quality. They have the strongest capacity for timely payment of debt service.

General Obligation Bonds -- In a period of economic stress, the issuers will suffer the smallest declines in income and will be least susceptible to autonomous decline. Debt burden is moderate. A strong revenue structure appears more than adequate to meet future expenditure requirements. Quality of management appears superior.

Revenue Bonds -- Debt service coverage has been, and is expected to remain, substantial. Stability of the pledged revenues is also exceptionally strong, due to the competitive position of the municipal enterprise or to the nature of the revenues. Basic security provisions (including rate covenant, earnings test for issuance of additional bonds, and debt service reserve requirements) are rigorous. There is evidence of superior management.

AA

High Grade -- The investment characteristics of general obligation and revenue bonds in this group are only slightly less marked than those of the prime quality issues. Bonds rated ``AA'' have the second strongest capacity for payment of debt service.

A

Good Grade -- Principal and interest payments on bonds in this category are regarded as safe. This rating describes the third strongest capacity for payment of debt service. It differs from the two higher ratings because:

General Obligation Bonds -- There is some weakness, either in the local economic base, in debt burden, in the balance between revenues and expenditures, or in quality of management. Under certain adverse circumstances, any one such weakness might impair the ability of the issuer to meet debt obligations at some future date.

Revenue Bonds -- Debt service coverage is good, but not exceptional. Stability of the pledged revenues could show some variations because of increased competition or economic influences on revenues. Basic security provisions, while satisfactory, are less stringent. Management performance appears adequate.

BBB

Medium Grade -- Of the investment grade ratings, this is the lowest.

General Obligation Bonds -- Under certain adverse conditions, several of the above factors could contribute to a lesser capacity for payment of debt service. The difference between ``A'' and ``BBB'' ratings is that the latter shows more than one fundamental weakness, or one very substantial fundamental weakness, whereas the former shows only one deficiency among the factors considered.

Revenue Bonds -- Debt coverage is only fair. Stability of the pledged revenues could show substantial variations, with the revenue flow possibly being subject to erosion over time. Basic security provisions are no more than adequate. Management performance could be stronger.

BB, B, CCC and CC

Bonds rated BB, B, CCC and CC are regarded, on balance, as predominately speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. BB indicates the lowest degree of speculation and CC the highest degree of speculation. While such bonds will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

C

The rating C is reserved for income bonds on which no interest is being paid.

D

Bonds rated D are in default, and payment of interest and/or repayment of principal is in arrears.

S&P's letter ratings may be modified by the addition of a plus or a minus sign, which is used to show relative standing within the major rating categories, except in the AAA-Prime Grade category.

S&P Ratings for Municipal Notes

Municipal notes with maturities of three years or less are usually given note ratings (designated SP-1, -2 or 3) by S&P to distinguish more clearly the credit quality of notes as compared to bonds. Notes rated SP1 have a very strong or strong capacity to pay principal and interest. Those issues determined to possess overwhelming safety characteristics are given the designation of SP-1+. Notes rated SP-2 have a satisfactory capacity to pay principal and interest.

Moody's Ratings for Municipal Bonds

Aaa

Bonds that are Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as ``gilt edge.'' Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa

Bonds that are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high-grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risks appear somewhat larger than in Aaa securities.

A

Bonds that are rated A possess many favorable investment attributes and are to be considered as upper medium-grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment sometime in the future.

Baa

Bonds that are rated Baa are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

Ba

Bonds that are rated Ba are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B

Bonds that are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Moody's applies the numerical modifiers 1, 2 and 3 in each generic rating classification from Aa through B. The modifier 1 indicates that the security ranks in the higher end of its generic rating category; the modifier 2 indicates a mid range ranking; and the modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

Caa

Bonds that are rated Caa are of poor standing. These issues may be in default or present elements of danger may exist with respect to principal or interest.

Ca

Bonds that are rated Ca represent obligations that are speculative in a high degree. These issues are often in default or have other marked short comings.

C

Bonds that are rated C are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

Moody's Ratings for Municipal Notes

Moody's ratings for state and municipal notes and other short-term loans are designated Moody's Investment Grade ("MIG'') and for variable rate demand obligations are designated Variable Moody's Investment
Grade ("VMIG''). This distinction is in recognition of the differences between short-term credit risk and long-term credit risk. Loans bearing the designation MIG 1 or VMIG 1 are of the best quality, enjoying strong protection by established cash flows of funds for their servicing or from established and broad based access to the market for refinancing, or both. Loans bearing the
designation MIG 2 or VMIG 2 are of high quality, with ample margins of protection although not as large as the preceding group. Loans bearing the designation MIG 3 or VMIG 3 are of favorable quality, with all security elements accounted for, but lacking the undeniable strength of the preceding grades. Liquidity and cash flow may be tight and market access for refinancing, in particular, is likely to be less well established.

Description of S&P A-1+ and A-1 Commercial Paper Rating

The rating A-1+ is the highest, and A-1 the second highest, commercial paper rating assigned by S&P. Paper rated A-1+ must have either the direct credit support of an issuer or guarantor that possesses excellent long-term operating and financial strengths combined with strong

liquidity characteristics (typically, such issuers or guarantors would display credit quality characteristics which would warrant a senior bond rating of "AA\-'' or higher), or the direct credit support of an issuer or guarantor that possesses above average long-term fundamental operating and financing capabilities combined with ongoing excellent liquidity characteristics. Paper rated A-1 by S&P has the following characteristics: liquidity ratios are adequate to meet cash requirements; long-term senior debt is rated ``A'' or better; the issuer has access to at least two additional channels of borrowing; basic earnings and cash flow have an upward trend with
allowance made for unusual circumstances; typically, the issuer's industry is well established and the issuer has a strong position within the industry; and the reliability and quality of management are unquestioned.

Description of Moody's Prime-1 Commercial Paper Rating

The rating Prime-1 is the highest commercial paper rating assigned by Moody's. Among the factors considered by Moody's in assigning ratings are the following: (a) evaluation of the management of the issuer; (b) economic evaluation of the issuer's industry or industries and an appraisal of speculativetype risks which may be inherent in certain areas; (c) evaluation of the issuer's products in relation to competition and customer acceptance; (d) liquidity; (e) amount and quality of long-term debt; (f) trend of earnings over a period of ten years; (g) financial strength of a parent company and the relationships which exist with the issuer; and (h) recognition by the management of obligations which may be present or may arise as a result of public interest questions and preparations to meet such obligations.

SMITH BARNEY   ARIZONA MUNICIPALS FUND INC.

PART C

Item 24.   Financial Statements and Exhibits

(a) Financial Statements
Included in Part A:
Financial Highlights
Included in Part B:
The Registrant's Annual Report
for
the
fiscal
year ended May 31, 1995 and the
report of Independent Accountants dated May 31,
1995, are incorporated by
reference to the Definitive 30b2-1 filed
on July 27, 1995 as Assession #0000091155-95

000237.

Included in Part C:

None.

(b) Exhibits

All references are to the Registrant's
Registration Statement on Form N-1A as filed
with
the Securities and Exchange Commission
File
Nos. 33-12792 and 811-5066 (the
"Registration Statement").

(1) Registrant's Articles of Incorporation and
Amendments to Articles of Incorporation
dated Decemder 29, 1988, November 5, 1992 and
July 30, 1993 are incorporated by
reference to Post Effective Amendment No. 14 to
the Registration Statement filed on October 1,
1993 ("Post-Effective Amendment No. 14").
Amendment to Articles of Incorporation dated
November 7, 1994 is filed herein.

(2) Registrant's By-Laws are incorporated by
reference to Pre-Effective Amendment No. 2
to the Registration Statement ("Pre-Effective
Amendment No. 2").

(3) Not Applicable.

(4) Registrant's form of stock certificate

is incproporated by

reference to Post-Effective Amendment No. 11 to the Registration Statement filed on October 23, 1992 ("Post-Effective Amendment No. 11").

(5)(a) Investment Advisory Agreement dated July 30, 1993 between the Registrant and Greenwich Street Advisors is incoroporated by reference to Post Effective Amendment No. 14.

(b) Form of Transfer and Assumption of Investment Advisory Agreement dated November 7, 1994 is filed herein.

(6) Distribution Agreement dated July 30, 1993, between the Registrant and Smith Barney Shearson Inc. is incorporated by reference to Post Effective Amendment No. 14.

(7) Not Applicable.

(8) Form of Custodian Agreement dated as of June 19, 1995 between the Registrant and PNC Bank, National Association is filed herein.

(9)(a) Transfer Agency Agreement between the Registrant and The Shareholder Services Group, Inc. is incorporated by reference to Post Effective Amendment No. 16 to the Registration Statement ("Post-Effective Amendment No. 16").

(b) Administration Agreement dated April 20, 1994 between the Registrant and Smith, Barney Advisers, Inc. is incorporated by reference to Post Effective Amendment No. 15 to the Registration Statement ("Post-Effective Amendment No. 15").

(10) Not Applicable.

(11) Consent of Indepedent Accountants is filed

herein.

(12) Not Applicable.

(13) Not Applicable.

(14) Not Applicable.

(15) Amended Service and Distribution Plan dated as of November 7, 1994 pursuant to Rule 12b-1 between the Registrant and Smith Barney Inc. is filed herein.

(16) Performance Data is incorporated by reference to Post-Effective Amendment No. 6 to the Registration Statement ("Post-Effective Amendment No. 6").

Item 25. Persons Controlled by or Under Common Control with Registrant

None.

Item 26. Number of Holders of Securities

(1)Title ofClass (2)Number of Record Holdersby class as of June 30, 1995

Common Stock Class A - 854
par value $.001 per share Class B - 603Class
C
006

Item 27. Indemnification.

The response to this item is incorporated by reference to Post-Effective Amendment No. 11.

Item 28(a). Business and Other Connections of Investment Adviser
Investment Adviser--Smith Barney Mutual Funds Management Inc., formerly known as Smith, Barney Advisers, Inc. ("SBMFM").

SBMFM was incorporated in December 1968 under the laws of the State of Delaware. SBMFM is a wholly owned subsidiary of Smith Barney Holdings Inc. (formerly known as Smith Barney Shearson Holdings

Inc.), which in turn is a wholly owned subsidiary of Travelers Group Inc. (formerly known as Primerica Corporation) ("Travelers"). SBMFM is registered as an investment adviser under the Investment Advisers Act of 1940 ("Advisers Act").

The list required by this Item 28 of officers and directors of SBMFM together with information as to any other business, profession, vocation or employment of a substantial nature engaged in by such officers and directors during the past two years, is incorporated by reference to Schedules A and D of Form ADV filed by SBMFM pursuant to the Advisers Act (SEC File No. 801 8314).

Prior to the close of business on November 7, 1994, Greenwich Street Advisors served as investment adviser. Greenwich Street Advisors, through its predecessors, has been in the investment counseling business since 1934 and was a division of Mutual Management Corp. ("MMC"). MMC was incorporated in 1978 and is a wholly owned subsidiary of Smith Barney Holdings Inc. (formerly known as Smith Barney Shearson Holdings Inc.) ("Holdings"), which in turn is a wholly owned subsidiary of Travelers Group Inc. (formerly known as Primerica Corporation) ("Travelers"). The list required by this Item 28 of officers and directors of MMC and Greenwich Street Advisors, together with information as to any other business, profession, vocation or employment of a substantial nature engaged in by such officers and directors during the past two fiscal years, is incorporated by reference to Schedules A and D of Form ADV filed by MMC on behalf of Greenwich Street Advisors pursuant to the Advisers Act (SEC File No. 801-14437).

Prior to the close of business on July 30, 1993 (the "Closing"), Shearson Lehman Advisors, a member of the Asset Management Group of Shearson Lehman Brothers Inc. ("Shearson Lehman Brothers"), served as the Registrant's investment adviser. On the Closing, Travelers and Smith Barney Inc. (formerly known as Smith Barney Shearson Inc.) acquired the domestic retail brokerage and asset management business of Shearson Lehman Brothers, which included the business of the Registrant's prior investment adviser. Shearson Lehman Brothers was a wholly owned subsidiary of Shearson Lehman Brothers Holdings Inc. ("Shearson Holdings"). All of the issued and outstanding common stock of Shearson Holdings (representing 92% of the voting stock) was held by American Express Company. Information as to any past business, vocation or employment of a substantial nature engaged in by officers or directors of Shearson Lehman Advisors can be located in Schedules A and D of Form ADV filed by Shearson Lehman Brothers on behalf of Shearson Lehman Advisors prior to July 30, 1993 (SEC File No. 8013701).

Item 29. Principal Underwriters

Smith Barney Inc. ("Smith Barney") currently acts as a distributor for Smith Barney Managed Municipals Fund Inc., Smith Barney New York Municipals Fund Inc., Smith Barney California Municipals Fund Inc.,
Smith Barney Massachusetts Municipals Fund, Smith Barney Managed Government Fund Inc., Smith Barney Aggressive Growth Fund Inc., Smith Barney Appreciation Fund Inc., Smith Barney Principal Return Fund, Smith Barney Income Funds, Smith Barney Equity Funds, Smith Barney Investment Funds Inc., Smith Barney Precious Metals and Minerals Fund Inc., Smith Barney Telecommunications Trust, Smith Barney Arizona Municipals Fund Inc., Smith Barney New Jersey Municipals Fund Inc., The USA High Yield Fund N.V., Smith Barney/Travelers Series Fund, Smith Barney Fundamental Value Fund Inc., Smith Barney Series Fund, Consulting Group Capital Markets Funds, Smith Barney Income Trust, Smith Barney Adjustable Rate Government Income Fund, Smith Barney Florida Municipals Fund, Smith Barney Oregon Municipals Fund, Smith Barney Funds, Inc., Smith Barney Muni Funds, Smith Barney World Funds, Inc., Smith Barney Money Funds, Inc., Smith Barney Municipal Money Market Fund, Inc., Smith Barney Variable Account Funds, Smith Barney U.S. Dollar Reserve Fund (Cayman), Worldwide Special Fund, N.V., Worldwide Securities Limited (Bermuda), Smith Barney International Fund (Luxembourg), Smith Barney Institutional Cash Management Fund, Inc. and various series of unit investment trusts.
Smith Barney is a wholly owned subsidiary of

Smith Barney Holdings Inc. (formerly known as Smith Barney Shearson Holdings Inc.), which in turn is a wholly owned subsidiary of Travelers Group Inc. (formerly known as Primerica Corporation) ("Travelers"). On June 1, 1994, Smith Barney changed its name from Smith Barney Shearson Inc. to its current name. The information required by this Item 29 with respect to each officer, director and partner of Smith Barney is incorporated by reference to Schedule A of Form BD filed by Smith Barney pursuant to the Securities Exchange Act of 1934 (SEC File No. 8128510).

Item 30. Location of Accountants and Records

(1) Smith Barney Arizona Municipals Fund Inc. 388 Greenwich Street
New York, New York 10013

(2) Smith Barney Mutual Funds Management Inc. 388 Greenwich Street
New York, New York 10013

(3) PNC Bank, National Association
17th and Chestnut Streets
Philadelphia, Pennsylvania 19103

(4) The Shareholder Services Group, Inc. One Exchange Place
Boston, Massachusetts 02109

Item 31. Management Services

Not Applicable.

Item 32. Undertakings

None.

485(b) Certification

The Registrant hereby certifies that it meets all the requirements for effectiveness pursuant to Rule 485(b)(1)(ix) under the Securities Act or 1933, as amended.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, and the Investment Company Act of 1940, the Registrant, SMITH BARNEY ARIZONA MUNICIPALS FUND INC., has duly caused this registration statement to be signed on its behalf by the undersigned, thereto duly authorized in the City of New York, and State of New York on the 25th day of July, 1995.

SMITH BARNEY ARIZONA MUNICIPALS FUND INC.

/s/Heath B. McLendon
Heath B. McLendon,
Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed below by the following persons in the capacities and on the date indicated.

/s/Heath B. McLendon
Heath B. McLendon Chairman of the Board July 25, 1995
(Chief Executive Officer)

/s/Lewis E. Daidone
Lewis E. Daidone Treasurer July 25, 1995
(Chief Financial and Accounting Officer)

/s/Herbert Barg
Herbert Barg Director July 25, 1995

/s/Alfred Bianchetti

Alfred J. Bianchetti
Director
July 25, 1995

/s/Martin Brody
Martin Brody
Director July
25, 1995

/s/Dwight B. Crane
Dwight B. Crane
Director July 25, 1995

/s/Burt N. Dorsett
Burt N. Dorsett
Director
July 25, 1995

/s/Elliot S. Jaffe
Elliot S. Jaffe
Director
July 25, 1995

/s/Stephen E. Kaufman
Stephen E. Kaufman
Director July
25, 1995

/s/Joseph J. McCann
Joseph J. McCann
Director July
25, 1995

/s/Cornelius C. Rose, Jr.
Cornelius C. Rose, Jr.
Director
July 25, 1995

ARTICLES SUPPLEMENTARY

SMITH BARNEY ARIZONA MUNICIPALS FUND INC.

Smith Barney Arizona Municipals Fund Inc., a Maryland corporation having its principal office in the State of Maryland in Baltimore City (hereinafter called the "Corporation"), hereby certifies to the State Department of Assessments and Taxation of Maryland that:

FIRST: The Corporation is authorized to issue 3,000,000,000 shares of capital stock, par value $.001 per share, with an aggregate par value of $3,000,000. These Articles Supplementary do not increase the total authorized capital stock of the Corporation or the aggregate par value thereof. The Board of Directors hereby classifies and reclassifies all of the unissued shares of capital stock of all classes of the Corporation in such manner that the Corporation will have 2,500,000,000 authorized shares of unclassified capital stock, par value $.001 per share, and that the remaining 500,000,000 shares of authorized capital stock will be classified into five classes, each with a par value of $.001 per share, designated Class A Common Stock, Class B Common Stock, Class C Common Stock, Class Y Common Stock and Class Z Common Stock. The Corporation shall be authorized to issue up to 500,000,000 shares of each of the Class A Common Stock, the Class B Common Stock, the Class C Common Stock, the Class Y Common Stock, and the Class Z Common Stock less, at any time, the total number of shares of all other such classes of capital stock then issued and outstanding. At no time may the Corporation cause to be issued and outstanding more than 500,000,000 shares of its Class A Common Stock, Class B Common Stock, Class C Common Stock, Class Y Common Stock and Class Z Common Stock in the aggregate unless such number be hereafter increased in accordance with the Maryland General Corporation Law.

SECOND: The shares of Class A Common Stock, Class B Common Stock and Class C Common Stock classified hereby shall have the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms and conditions of redemption as currently set forth in the charter of the Corporation with

respect to those respective classes of capital stock. The shares of Class Y Common Stock and Class Z Common Stock classified hereby shall have the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications, and terms and conditions of redemption as set forth in Article V of the Corporation's Articles of Incorporation and shall be subject to all provisions of its Articles of Incorporation relating to stock of the Corporation generally, and those set forth as follows:

(1) The assets belonging to each of the Class Y Common Stock and Class Z Common Stock shall be invested in the same investment portfolio of the Corporation as the assets belonging to the Class A Common Stock, Class B Common Stock, and Class C Common Stock.

(2) The dividends and distributions of investment income and capital gains with respect to each of the Class Y Common Stock and Class Z Common Stock shall be in such amounts as may be declared from time to time by the Board of Directors, and such dividends and distributions with respect to each such class of capital stock may vary from dividends and distributions with respect to each other class of capital stock to reflect differing allocation of the expenses of the Corporation among the holders of each such class and any resultant differences among the net asset values per share of each such class, to such extent and for such purposes as the Board of Directors may deem appropriate.

(3) The allocation of investment income, capital gains and losses, expenses and liabilities of the Corporation among the Class Y Common Stock, Class Z Common Stock and any other class of the Corporation's stock shall be determined conclusively by the Board of Directors in a manner that is consistent with the order dated July 7, 1992 (Investment Company Act of 1940 Release No. 18832), as amended January 19, 1993 (Investment Company Act Release No. 19216), and January 28, 1994 (Investment Company Act of 1940, Release No. 20042) issued by the Securities and Exchange Commission in connection with the application for

exemption filed by Smith Barney Appreciation Fund, Inc. (formerly Shearson Lehman Brothers Appreciation Fund Inc.) et al., and any existing or future amendment to such order or any rule or interpretation under the Investment Company Act of 1940 that modifies or supersedes such order.

THIRD: The Board of Directors of the Corporation has classified the above described shares of stock pursuant to authority contained in the Corporation's charter.

FOURTH: These Articles Supplementary will become effective at 9:01 A.M. on November 7, 1994.

The undersigned Chairman of the Board of the Corporation acknowledges these Articles Supplementary to be the corporate act of the Corporation and states that to the best of his knowledge, information and belief, the matters and facts set forth in these Articles with respect to authorization and approval are true in all material respects and that this statement is made under penalties of perjury.

IN WITNESS WHEREOF, Smith Barney Arizona Municipals Fund Inc. has caused these Articles Supplementary to be signed and filed in its name and on its behalf by its Chairman of the Board, and witnessed by its Assistant Secretary on , 1994.

SMITH BARNEY ARIZONA MUNICIPALS FUND INC.

By:
Heath B. McLendon,
Chairman of the Board

WITNESS:

Lee D. Augsburger,
Assistant Secretary

FORM OF TRANSFER AND ASSUMPTION OF
INVESTMENT ADVISORY AGREEMENT
for
SMITH BARNEY ARIZONA MUNICIPALS FUND INC.

TRANSFER AND ASSUMPTION OF INVESTMENT ADVISORY AGREEMENT, made as of the 7th day of November, 1994, by and among Smith Barney Arizona Municipals Fund Inc., a Maryland corporation, (the "Fund"), Mutual Management Corp., a New York corporation ("MMC"), and Smith Barney Mutual Funds Management Inc. ("SBMFM") a Delaware corporation.

WHEREAS, the Fund is registered with the Securities and Exchange Commission as an open-end management investment company under the Investment Company Act of 1940, as amended (the "Act"); and

WHEREAS, the Fund and MMC entered into an Investment Advisory Agreement on July 30, 1993, under which MMC serves as the investment adviser (the "Investment Adviser") for the Fund; and

WHEREAS, MMC desires that its interest, rights, responsibilities and obligations in and under the Investment Advisory Agreement be transferred to SBMFM and SBMFM desires to assume MMC's interest, rights, responsibilities and obligations in and under the Investment Advisory Agreement; and

WHEREAS, this Agreement does not result in a change of actual control or management of the Investment Adviser to the Fund and, therefore, is not an "assignment" as defined in Section 2(a)(4) of the Act nor an "assignment" for the purposes of Section 15(a)(4) of the Act.

NOW, THEREFORE, in consideration of the mutual covenants set forth in this Agreement and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

1. Assignment. Effective as of November 7, 1994 (the "Effective Date"), MMC hereby transfers to SBMFM all of MMC's interest, rights, responsibilities and obligations in and under the Investment Advisory Agreement dated July 30, 1993, to which MMC is a party with the Fund.

2. Assumption and Performance of Duties. As of the Effective Date, SBMFM hereby accepts all of MMC's interest and rights, and assumes and agrees to perform all of MMC's

responsibilities and obligations in, and under the Investment Advisory Agreement; SBMFM agrees to subject to all of the terms and conditions of said Agreement; and SBMFM shall indemnify and hold harmless MMC from any claim or demand made thereunder arising or incurred after the Effective Date.

3. Representation of SBMFM. SBMFM represents and warrants that: (1) it is registered as an investment adviser under the Investment Advisers Act of 1940, as amended; and (2) Smith Barney Holdings Inc. is its sole shareholder.

4. Consent. The Fund hereby consents to this transfer by MMC to SBMFM of MMC's interest, rights, responsibilities and obligations in and under the Investment Advisory Agreement and to the acceptance and assumption by SBMFM of the same. The Fund agrees, subject to the terms and conditions of said Agreement, to look solely to SBMFM for the performance of the Investment Adviser's responsibilities and obligations under said Agreement from and after the Effective Date, and to recognize as inuring solely to SBMFM the interest and rights heretofore held by MMC thereunder.

5. Limitation of Liability of Directors, Officers and Shareholders. It is expressly agreed that the obligations of the Fund hereunder shall not be binding upon any of the Directors, shareholders, nominees, officers, agents, or employees of the Fund, personally, but shall bind only the property of the Fund, as provided in the Articles of Incorporation of the Fund. The execution and delivery of this Agreement have been authorized by the Directors of the Fund and signed by the President of the Fund, acting as such, and neither such authorization by such Directors nor such execution and delivery by such officer shall be deemed to have been made by any of them individually or to impose any liability on any of them, personally, but shall bind only the property of the Fund as provided in its Articles of Incorporation.

6. Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers hereunto duly attested.

Attest:

By:

Secretary Smith Barney Arizona Municipals Fund Inc.

Attest:

By:

Secretary Mutual Management Corp.

Attest:

By:

Secretary Smith Barney Mutual Funds Management Inc.

CUSTODIAN SERVICES AGREEMENT

This Agreement is made as of June 19, 1995 by and between SMITH BARNEY ARIZONA MUNICIPALS FUND INC., a Maryland corporation (the "Fund") and PNC BANK, NATIONAL ASSOCIATION, a national banking association ("PNC Bank").

The Fund is registered as an open-end investment company under the Investment Company Act of 1940, as amended (the "1940 Act"). The Fund wishes to retain PNC Bank to provide custodian services and PNC Bank wishes to furnish such services, either directly or through an affiliate or affiliates, as more fully described herein. In consideration of the premises and mutual covenants herein contained, the parties agree as follows:

1. Definitions.

(a) "Authorized Person." The term "Authorized Person" shall mean any officer of the Fund and any other person, who is duly authorized by the Fund's Governing Board, to give Oral and Written Instructions on behalf of the Fund. Such persons are listed in the Certificate attached hereto as the Authorized Persons Appendix, as such Appendix may be amended in writing by the Fund's Governing Board from time to time.

(b) "Book-Entry System." The term "Book-Entry System" means Federal Reserve Treasury book-entry system for United States and federal agency securities, its successor or successors, and its nominee or nominees and any book-entry system maintained by an exchange registered with the SEC under the 1934 Act.

(c) "CFTC." The term "CFTC" shall mean the Commodities Futures Trading Commission.

(d) "Governing Board." The term "Governing Board" shall mean the Fund's Board of Directors if the Fund is a corporation or the Fund's Board of Trustees if the Fund is a trust, or, where duly authorized, a competent committee thereof.

(e) "Oral Instructions." The term "Oral Instructions" shall mean oral instructions received by PNC Bank from an Authorized Person or from a person reasonably believed by PNC Bank to be an Authorized Person.

(f) "SEC." The term "SEC" shall mean the Securities and Exchange Commission.

(g) "Securities and Commodities Laws." The term "Securities and Commodities Laws" shall mean the "1933 Act" which shall mean the Securities Act of 1933, the "1934 Act" which shall mean the Securities Exchange Act of 1934, the 1940 Act, and the "CEA" which shall mean the Commodities

Exchange Act, as amended.

(h) "Shares." The term "Shares" shall mean the shares of stock of any series or class of the Fund, or, where appropriate, units of beneficial interest in a trust where the Fund is organized as a Trust.

(i) "Property." The term "Property" shall mean:

(i) any and all securities and other investment items which the Fund may from time to time deposit, or cause to be deposited, with PNC Bank or which PNC Bank may from time to time hold for the Fund;

(ii) all income in respect of any of such securities or other investment items;

(iii) all proceeds of the sale of any of such securities or investment items; and

(iv) all proceeds of the sale of securities issued by the Fund, which are received by PNC Bank from time to time, from or on behalf of the Fund.

(j) "Written Instructions." The term "Written Instructions" shall mean written instructions signed by one Authorized Person and received by PNC Bank. The instructions may be delivered by hand, mail, tested telegram, cable, telex or facsimile sending device.

2. Appointment. The Fund hereby appoints PNC Bank to provide custodian services to the Fund, and PNC Bank accepts such appointment and agrees to furnish such services.

3. Delivery of Documents. The Fund has provided or, where applicable, will provide PNC Bank with the following:

(a) certified or authenticated copies of the resolutions of the Fund's Governing Board, approving the appointment of PNC Bank or its affiliates to provide services;

(b) a copy of the Fund's most recent effective registration statement;

(c) a copy of the Fund's advisory agreement or agreements;

(d) a copy of the Fund's distribution agreement or agreements;

(e) a copy of the Fund's administration agreements if PNC Bank is not providing the Fund with such services; (f) copies of any shareholder servicing agreements made in respect of the Fund; and

(g) certified or authenticated copies of any and all amendments or supplements to the foregoing.

4. Compliance with Government Rules and Regulations. PNC Bank undertakes to comply with all applicable requirements of the Securities and Commodities Laws and any laws, rules and regulations of governmental authorities having jurisdiction with respect to all duties to be performed by PNC Bank hereunder. Except as specifically set forth herein, PNC Bank assumes no responsibility for such compliance by the Fund.

5. Instructions. Unless otherwise provided in this Agreement, PNC Bank shall act only upon Oral and Written Instructions. PNC Bank shall be entitled to rely upon any Oral and Written Instructions it receives from an Authorized Person (or from a person reasonably believed by PNC Bank to be an Authorized Person) pursuant to this Agreement. PNC Bank may assume that any Oral or Written Instructions received hereunder are not in any way inconsistent with the provisions of organizational documents or this Agreement or of any vote, resolution or proceeding of the Fund's Governing Board or of the Fund's shareholders.

The Fund agrees to forward to PNC Bank Written Instructions confirming Oral Instructions so that PNC Bank receives the Written Instructions by the close of business on the same day that such Oral Instructions are received. The fact that such confirming Written Instructions are not received by PNC Bank shall in no way invalidate the transactions or enforceability of the transactions authorized by the Oral Instructions.

The Fund further agrees that PNC Bank shall incur no liability to the Fund in acting upon Oral or Written Instructions provided such instructions reasonably appear to have been received from an Authorized Person.

6. Right to Receive Advice.

(a) Advice of the Fund. If PNC Bank is in doubt as to any action it should or should not take, PNC Bank may request directions or advice, including Oral or Written Instructions, from the Fund.

(b) Advice of Counsel. If PNC Bank shall be in doubt as to any questions of law pertaining to any action it should or should not take, PNC Bank may request advice at its own cost from such counsel of its own choosing (who may be counsel for the Fund, the Fund's advisor or PNC Bank, at the option of PNC Bank).

(c) Conflicting Advice. In the event of a conflict between directions, advice or Oral or Written Instructions PNC Bank receives from the Fund, and the advice it receives from counsel, PNC Bank shall be entitled to rely upon and follow the advice of counsel.

(d) Protection of PNC Bank. PNC Bank shall be protected in any action it takes or does not take in reliance upon directions, advice or Oral or Written Instructions it receives from the Fund or from counsel and which PNC Bank believes, in good faith, to be consistent with those directions, advice or Oral or Written Instructions.

Nothing in this paragraph shall be construed so as to impose an obligation upon PNC Bank (i) to seek such directions, advice or Oral or Written Instructions, or (ii) to act in accordance with such directions, advice or Oral or Written Instructions unless, under the terms of other provisions of this Agreement, the same is a condition of PNC Bank's properly taking or not taking such action.

7. Records. The books and records pertaining to the Fund which are in the possession of PNC Bank, shall be the property of the Fund. Such books and records shall be prepared and maintained as required by the 1940 Act and other applicable securities laws, rules and regulations. The Fund, or the Fund's Authorized Persons, shall have access to such books and records at all time during PNC Bank's normal business hours. Upon the reasonable request of the Fund, copies of any such books and records shall be provided by PNC Bank to the Fund or to an Authorized Person of the Fund, at the Fund's expense.

8. Confidentiality. PNC Bank agrees to keep confidential all records of the Fund and information relative to the Fund and its shareholders (past, present and potential), unless the release of such records or information is otherwise consented to, in writing, by the Fund. The Fund agrees that such consent shall not be unreasonably withheld and may not be withheld where PNC Bank may be exposed to civil or criminal contempt proceedings or when required to divulge. The Fund further agrees that, should PNC Bank be required to provide such information or records to duly constituted authorities (who may institute civil or criminal contempt proceedings for failure to comply), PNC Bank shall not be required to seek the Fund's consent prior to disclosing such information.

9. Cooperation with Accountants. PNC Bank shall cooperate with the Fund's independent public accountants and shall take all reasonable action in the performance of its obligations under this Agreement to ensure that the necessary information is made available to such accountants for the expression of their opinion, as required by the Fund.

10. Disaster Recovery. PNC Bank shall enter into and shall maintain in effect with appropriate parties one or more agreements making reasonable provision for emergency use of electronic data processing equipment to the extent appropriate equipment is available. In the event of equipment failures, PNC Bank shall, at no additional expense to the Fund, take reasonable steps to minimize service interruptions but shall have no liability with respect thereto.

11. Compensation. As compensation for custody services rendered by PNC Bank during the term of this Agreement, the Fund will pay to PNC Bank a fee or fees as may be agreed to in writing from time to time by the Fund and PNC Bank.

12. Indemnification. The Fund agrees to indemnify and hold harmless PNC Bank and its nominees from all taxes, charges, expenses, assessment, claims and liabilities

(including, without limitation, liabilities arising under the Securities and Commodities Laws and any state and foreign securities and blue sky laws, and amendments thereto, and expenses, including (without limitation) attorneys' fees and disbursements, arising directly or indirectly from any action which PNC Bank takes or does not take (i) at the request or on the direction of or in reliance on the advice of the Fund or (ii) upon Oral or Written Instructions. Neither PNC Bank, nor any of its nominees, shall be indemnified against any liability to the Fund or to its shareholders (or any expenses incident to such liability) arising out of PNC Bank's own willful misfeasance, bad faith, negligence or reckless disregard of its duties and obligations under this Agreement.

13. Responsibility of PNC Bank. PNC Bank shall be under no duty to take any action on behalf of the Fund except as specifically set forth herein or as may be specifically agreed to by PNC Bank, in writing. PNC Bank shall be obligated to exercise care and diligence in the performance of its duties hereunder, to act in good faith and to use its best effort, within reasonable limits, in performing services provided for under this Agreement. PNC Bank shall be responsible for its own negligent failure to perform its duties under this Agreement. Notwithstanding the foregoing, PNC Bank shall not be responsible for losses beyond its control, provided that PNC Bank has acted in accordance with the standard of care set forth above; and provided further that PNC Bank shall only be responsible for that portion of losses or damages suffered by the Fund that are attributable to the negligence of PNC Bank.

Without limiting the generality of the foregoing or of any other provision of this Agreement, PNC Bank, in connection with its duties under this Agreement, shall not be under any duty or obligation to inquire into and shall not be liable for (a) the validity or invalidity or authority or lack thereof of any Oral or Written Instruction, notice or other instrument which conforms to the applicable requirements of this Agreement, and which PNC Bank reasonably believes to be genuine; or (b) delays or errors or loss of data occurring by reason of circumstances beyond PNC Bank's control, including acts of civil or military authority, national emergencies, labor difficulties, fire, flood or catastrophe, acts of God, insurrection, war, riots or failure of the mails, transportation, communication or power supply.

Notwithstanding anything in this Agreement to the contrary, PNC Bank shall have no liability to the Fund for any consequential, special or indirect losses or damages which the Fund may incur or suffer by or as a consequence of PNC Bank's performance of the services provided hereunder, whether or not the likelihood of such losses or damages was known by PNC Bank.

14. Description of Services.

(a) Delivery of the Property. The Fund will deliver or arrange for delivery to PNC Bank, all the property owned by the Fund, including cash received as a result of the distribution of its Shares, during the period that is set forth in this Agreement. PNC Bank will not be responsible for such property until actual receipt.

(b) Receipt and Disbursement of Money. PNC Bank, acting upon Written Instructions, shall open and maintain separate account(s) in the Fund's name using all cash received from or for the account of the Fund, subject to the terms of this Agreement. In addition, upon Written Instructions, PNC Bank shall open separate custodial accounts for each separate series, class or portfolio of the Fund and shall hold in such account(s) all cash received from or for the accounts of the Fund specifically designated to each separate series, class or portfolio. PNC Bank shall make cash payments from or for the account of the Fund only for:

(i) purchases of securities in the name of the Fund or PNC Bank or PNC Bank's nominee as provided in sub-paragraph j and for which PNC Bank has received a copy of the broker's or dealer's confirmation or payee's invoice, as appropriate;

(ii) purchase or redemption of Shares of the Fund delivered to PNC Bank;

(iii) payment of, subject to Written Instructions, interest, taxes, administration, accounting, distribution, advisory, management fees or similar expenses which are to be borne by the Fund;

(iv) payment to, subject to receipt of Written Instructions, the Fund's transfer agent, as agent for the shareholders, an amount equal to the amount of dividends and distributions stated in the Written Instructions to be distributed in cash by the transfer agent to shareholders, or, in lieu of paying the Fund's transfer agent, PNC Bank may arrange for the direct payment of cash dividends and distributions to shareholders in accordance with procedures mutually agreed upon from time to time by and among the Fund, PNC Bank and the Fund's transfer agent;

(v) payments, upon receipt of Written Instructions, in connection with the conversion, exchange or surrender of securities owned or subscribed to by the Fund and held by or delivered to PNC Bank;

(vi) payments of the amounts of dividends received with respect to securities sold short; payments made to a sub-custodian pursuant to provisions in sub-paragraph c of this Paragraph; and

(viii) payments, upon Written Instructions made for other proper Fund purposes. PNC Bank is hereby authorized to endorse and collect all checks, drafts or other orders for the payment of money received as custodian for the account of the Fund.

(c) Receipt of Securities.

(i) PNC Bank shall hold all securities received by it for the account of the Fund in a separate account that physically segregates such securities from those of any other persons, firms or corporations, except for securities held in a Book-Entry System. All such securities shall be held or disposed of only upon Written Instructions of the Fund pursuant to the terms of this Agreement. PNC Bank shall have no power or authority to assign, hypothecate, pledge or otherwise dispose of any such securities or investment, except upon the express terms of this Agreement and upon Written Instructions, accompanied by a certified resolution of the Fund's Governing Board, authorizing the transaction. In no case may any member of the Fund's Governing Board, or any officer, employee or agent of the Fund withdraw any securities. At PNC Bank's own expense and for its own convenience, PNC Bank may enter into sub-custodian agreements with other banks or trust companies to perform duties described in this sub-paragraph c. Such bank or trust company shall have an aggregate capital, surplus and undivided profits, according to its last published report, of at least one million dollars ($1,000,000), if it is a subsidiary or affiliate of PNC Bank, or at least twenty million dollars ($20,000,000) if such bank or trust company is not a subsidiary or affiliate of PNC Bank. In addition, such bank or trust company must agree to comply with the relevant provisions of the 1940 Act and other applicable rules and regulations. PNC Bank shall remain responsible for the performance of all of its duties as described in this Agreement and shall hold the Fund harmless from PNC Bank's own (or any sub-custodian chosen by PNC Bank under the terms of this sub-paragraph c) acts or omissions, under the standards of care provided for herein.

(d) Transactions Requiring Instructions. Upon receipt of Oral or Written Instructions and not otherwise, PNC Bank, directly or through the use of the Book-Entry System, shall:

(i) deliver any securities held for the Fund against the receipt of payment for the sale of such securities;

(ii) execute and deliver to such persons as may be designated in such Oral or Written Instructions, proxies, consents, authorizations, and any other instruments whereby the authority of the Fund as owner of any securities may be exercised;

(iii) deliver any securities to the issuer thereof, or its agent, when such securities are called, redeemed, retired or otherwise become payable; provided that, in any such case, the cash or other consideration is to be delivered to PNC Bank;

(iv) deliver any securities held for the Fund against receipt of other securities or cash issued or paid in connection with the liquidation, reorganization, refinancing, tender offer, merger, consolidation or recapitalization of any corporation, or the exercise of any conversion privilege;

(v) deliver any securities held for the Fund to any protective committee, reorganization committee or other person in connection with the reorganization, refinancing, merger, consolidation, recapitalization or sale of assets of any corporation, and receive and hold under the terms of this Agreement such certificates of deposit, interim receipts or other instruments or documents as may be issued to it to evidence such delivery;

(vi) make such transfer or exchanges of the assets of the Fund and take such other steps as shall be stated in said Oral or Written Instructions to be for the purpose of effectuating a duly authorized plan of liquidation, reorganization, merger, consolidation or recapitalization of the Fund;

(vii) release securities belonging to the Fund to any bank or trust company for the purpose of a pledge or hypothecation to secure any loan incurred by the Fund; provided, however, that securities shall be released only upon payment to PNC Bank of the monies borrowed, except that in cases where additional collateral is required to secure a borrowing already made subject to proper prior authorization, further securities may be released for that purpose; and repay such loan upon redelivery to it of the securities pledged or hypothecated therefor and upon surrender of the note or notes evidencing the loan;

(viii) release and deliver securities owned by the Fund in connection with any repurchase agreement entered into on behalf of the Fund, but only on receipt of payment therefor; and pay out moneys of the Fund in connection with such repurchase agreements, but only upon the delivery of the securities;

(ix) release and deliver or exchange securities owned by the Fund in connection with any conversion of such securities, pursuant to their terms, into other securities;

(x) release and deliver securities owned by the Fund for the purpose of redeeming in kind shares of the Fund upon delivery thereof to PNC Bank; and

(xi) release and deliver or exchange securities owned by the Fund for other corporate purposes. PNC Bank must also receive a certified resolution describing the nature of the corporate purpose and the name and address of the person(s) to whom delivery shall be made when such action is pursuant to sub-paragraph d above.

(e) Use of Book-Entry System. The Fund shall deliver to PNC Bank certified resolutions of the Fund's Governing Board approving, authorizing and instructing PNC Bank on a continuous and on-going basis, to deposit in the Book-Entry System all securities belonging to the Fund eligible for deposit therein and to utilize the Book-Entry System to the extent possible in connection with settlements of purchases and sales of securities by the Fund, and deliveries and returns of securities loaned, subject to repurchase agreements or used as collateral in connection with borrowings. PNC Bank shall continue to perform such duties until it receives Written or Oral Instructions authorizing contrary actions(s).

To administer the Book-Entry System properly, the following provisions shall apply:

(i) With respect to securities of the Fund which are maintained in the Book-Entry system, established pursuant to this sub-paragraph e hereof, the records of PNC Bank shall identify by Book-Entry or otherwise those securities belonging to the Fund. PNC Bank shall furnish the Fund a detailed statement of the Property held for the Fund under this Agreement at least monthly and from time to time and upon written request.

(ii) Securities and any cash of the Fund deposited in the Book-Entry System will at all times be segregated from any assets and cash controlled by PNC Bank in other than a fiduciary or custodian capacity but may be commingled with other assets held in such capacities. PNC Bank and its sub-custodian, if any, will pay out money only upon receipt of securities and will deliver securities only upon the receipt of money.

(iii) All books and records maintained by PNC Bank which relate to the Fund's participation in the Book-Entry System will at all times during PNC Bank's regular business hours be open to the inspection of the Fund's duly authorized employees or agents, and the Fund will be furnished with all information in respect of the services rendered to it as it may require.

(iv) PNC Bank will provide the Fund with copies of any report obtained by PNC Bank on the system of internal accounting control of the Book-Entry System promptly after receipt of such a report by PNC Bank. PNC Bank will also provide the Fund with such reports on its own system of internal control as the Fund may reasonably request from time to time.

(f) Registration of Securities. All Securities held for the Fund which are issued or issuable only in bearer form, except such securities held in the Book-Entry System, shall be held by PNC Bank in bearer form; all other securities held for the Fund may be registered in the name of the Fund; PNC Bank; the Book-Entry System; a sub-custodian; or any duly appointed nominee(s) of the Fund, PNC Bank, Book-Entry system or sub-custodian. The Fund reserves the right to instruct PNC Bank as to the method of registration and safekeeping of the securities of the Fund. The Fund agrees to furnish to PNC Bank appropriate instruments to enable PNC Bank to hold or deliver in proper form for transfer, or to register its registered nominee or in the name of the Book-Entry System, any securities which it may hold for the account of the Fund and which may from time to time be registered in the name of the Fund. PNC Bank shall hold all such securities which are not held in the Book-Entry System in a separate account for the Fund in the name of the Fund physically segregated at all times from those of any other person or persons.

(g) Voting and Other Action. Neither PNC Bank nor its nominee shall vote any of the securities held pursuant to this Agreement by or for the account of the Fund, except in accordance with Written Instructions. PNC Bank, directly or through the use of the Book-Entry System, shall execute in blank and promptly deliver all notice, proxies, and proxy soliciting materials to the registered holder of such securities. If the registered holder is not the Fund then Written or Oral Instructions must designate the person(s) who owns such securities.

(h) Transactions Not Requiring Instructions. In the absence of contrary Written Instructions, PNC Bank is authorized to take the following actions:

(i) Collection of Income and Other Payments.

(A) collect and receive for the account of the Fund, all income, dividends, distributions, coupons, option premiums, other payments and similar items, included or to be included in the Property, and, in addition, promptly advise the Fund of such receipt and credit such income, as collected, to the Fund's custodian account;

(B) endorse and deposit for collection, in the name of the Fund, checks, drafts, or other orders for the payment of money;

(C) receive and hold for the account of the Fund all securities received as a distribution on the Fund's portfolio securities as a result of a stock dividend, share split-up or reorganization, recapitalization, readjustment or other rearrangement or distribution of rights or similar securities issued with respect to any portfolio securities belonging to the Fund held by PNC Bank hereunder;

(D) present for payment and collect the amount payable upon all securities which may mature or be called, redeemed, or retired, or otherwise become payable on the date such securities become payable; and

(E) take any action which may be necessary and proper in connection with the collection and receipt of such income and other payments and the endorsement for collection of checks, drafts, and other negotiable instruments.

(ii) Miscellaneous Transactions.

(A) PNC Bank is authorized to deliver or cause to be delivered Property against payment or other consideration or written receipt therefor in the following cases:

(1) for examination by a broker or dealer selling for the account of the Fund in accordance with street delivery custom;

(2) for the exchange of interim receipts or temporary securities for definitive securities; and

(3) for transfer of securities into the name of the Fund or PNC Bank or nominee of either, or for exchange of securities for a different number of bonds,certificates, or other evidence, representing the same aggregate face amount or number of units bearing the same interest rate, maturity date and call provisions, if any; provided that, in any such case, the new securities are to be delivered to PNC Bank.

(B) Unless and until PNC Bank receives Oral or Written Instructions to the contrary, PNC Bank shall:

(1) pay all income items held by it which call for payment upon presentation and hold the cash received by it upon such payment for the account of the Fund;

(2) collect interest and cash dividends received, with notice to the Fund, to the Fund's account;

(3) hold for the account of the Fund all stock dividends, rights and similar securities issued with respect to any securities held by PNC Bank; and

(4) execute as agent on behalf of the Fund all necessary ownership certificates required by the Internal Revenue Code or the Income Tax Regulations of the United States Treasury Department or under the laws of any State now or hereafter in effect, inserting the Fund's name, on such certificate as the owner of the securities covered thereby, to the extent it may lawfully do so.

(i) Segregated Accounts.

(i) PNC Bank shall upon receipt of Written or Oral Instructions establish and maintain segregated account(s) on its records for and on behalf of the Fund. Such account(s) may be used to transfer cash and securities, including securities in the Book-Entry System:

(A) for the purposes of compliance by

the Fund with the procedures required by a securities or option exchange, providing such procedures comply with the 1940 Act and any releases of the SEC relating to the maintenance of segregated accounts by registered investment companies; and

(B) Upon receipt of Written Instructions, for other proper corporate purposes.

(ii) PNC Bank may enter into separate custodial agreements with various futures commission merchants ("FCMs") that the Fund uses ("FCM Agreement"). Pursuant to an FCM Agreement, the Fund's margin deposits in any transactions involving futures contracts and options on futures contracts will be held by PNC Bank in accounts ("FCM Account") subject to the disposition by the FCM involved in such contracts and in accordance with the customer contract between FCM and the Fund ("FCM Contract"), SEC rules and the rules of the applicable commodities exchange. Such FCM Agreements shall only be entered into upon receipt of Written Instructions from the Fund which state that:

(A) a customer agreement between the FCM and the Fund has been entered into; and

(B) the Fund is in compliance with all the rules and regulations of the CFTC. Transfers of initial margin shall be made into a FCM Account only upon Written Instructions; transfers of premium and variation margin may be made into a FCM Account pursuant to Oral Instructions.

Transfers of funds from a FCM Account to the FCM for which PNC Bank holds such an account may only occur upon certification by the FCM to PNC Bank that pursuant to the FCM Agreement and the FCM Contract, all conditions precedent to its right to give PNC Bank such instructions have been satisfied.

(iii) PNC Bank shall arrange for the establishment of IRA custodian accounts for such share-holders holding Shares through IRA accounts, in accordance with the Fund's prospectuses, the Internal Revenue Code (including regulations), and with such other procedures as are mutually agreed upon from time to time by and among the Fund, PNC Bank and the Fund's transfer agent.

(j) Purchases of Securities. PNC Bank shall settle purchased securities upon receipt of Oral or Written Instructions from the Fund or its investment advisor(s) that specify:

(i) the name of the issuer and the title of the securities, including CUSIP number if applicable;

(ii) the number of shares or the principal amount purchased and accrued interest, if any;

(iii) the date of purchase and settlement;

(iv) the purchase price per unit;

(v) the total amount payable upon such purchase; and

(vi) the name of the person from whom or the broker through whom the purchase was made. PNC Bank shall upon receipt of securities purchased by or for the Fund pay out of the moneys held for the account of the Fund the total amount payable to the person from whom or the broker through whom the purchase was made, provided that the same conforms to the total amount payable as set forth in such Oral or Written Instructions.

(k) Sales of Securities. PNC Bank shall settle sold securities upon receipt of Oral or Written Instructions from the Fund that specify:

(i) the name of the issuer and the title of the security, including CUSIP number if applicable;

(ii) the number of shares or principal amount sold, and accrued interest, if any;

(iii) the date of trade, settlement and sale;

(iv) the sale price per unit;

(v) the total amount payable to the Fund upon such sale;

(vi) the name of the broker through whom or the person to whom the sale was made; and

(vii) the location to which the security must be delivered and delivery deadline, if any. PNC Bank shall deliver the securities upon receipt of the total amount payable to the Fund upon such sale, provided that the total amount payable is the same as was set forth in the Oral or Written Instructions. Subject to the foregoing, PNC Bank may accept payment in such form as shall be satisfactory to it, and may deliver securities and arrange for payment in accordance with the customs prevailing among dealers in securities.

(l) Reports.

(i) PNC Bank shall furnish the Fund the following reports:

(A) such periodic and special reports as the Fund may reasonably request;

(B) a monthly statement summarizing all transactions and entries for the account of the Fund, listing the portfolio securities belonging to the Fund with the adjusted average cost of each issue and the market value at the end of such month, and stating the cash account of the Fund including disbursement;

(C) the reports to be furnished to the Fund pursuant to Rule 17f-4; and

(D) such other information as may be agreed upon from time to time between the Fund and PNC Bank.

(ii) PNC Bank shall transmit promptly to the Fund any proxy statement, proxy material, notice of a call or conversion or similar communication received by it as custodian of the Property. PNC Bank shall be under no other obligation to inform the Fund as to such actions or events.

(m) Collections. All collections of monies or other property, in respect, or which are to become part of the Property (but not the safekeeping thereof upon receipt by PNC Bank) shall be at the sole risk of the Fund. If payment is not received by PNC Bank within a reasonable time after proper demands have been made, PNC Bank shall notify the Fund in writing, including copies of all demand letters, any written responses, memoranda of all oral responses and telephonic demands thereto, and await instructions from the Fund. PNC Bank shall not be obliged to take legal action for collection unless and until reasonably indemnified to its satisfaction. PNC Bank shall also notify the Fund as soon as reasonably practicable whenever income due on securities is not collected in due course.

15. Duration and Termination. This Agreement shall continue until terminated by the Fund or by PNC Bank on sixty (60) days' prior written notice to the other party. In the event this Agreement is terminated (pending appointment of a successor to PNC Bank or vote of the shareholders of the Fund to dissolve or to function without a custodian of its cash, securities or other property), PNC Bank shall not deliver cash, securities or other property of the Fund to the Fund. It may deliver them to a bank or trust company of PNC Bank's choice, having an aggregate capital, surplus and undivided profits, as shown by its last published report, of not less than twenty million dollars ($20,000,000), as a custodian for the Fund to be held under terms similar to those of this Agreement. PNC Bank shall not be required to make any such delivery or payment until full payment shall have been made to PNC Bank of all of its fees, compensation, costs and expenses. PNC Bank shall have a security interest in and shall have a right of setoff against Property in the Fund's possession as security for the payment of such fees, compensation, costs and expenses.

16. Notices. All notices and other communications, including Written Instructions, shall be in writing or by confirming telegram, cable, telex or facsimile sending device. Notice shall be addressed (a) if to PNC Bank at PNC Bank's address: Airport Business Center, International Court 2, 200 Stevens Drive, Lester, Pennsylvania 19113, marked for the attention of the Custodian Services Department (or its successor) (b) if to the Fund, at the address of the Fund; or (c) if to neither of the foregoing, at such other address as shall have been notified to the sender of any such notice or other communication. If notice is sent by confirming telegram, cable, telex or facsimile sending device, it shall be deemed to have been given immediately. If notice is sent by first-class mail, it shall be deemed to have been given five days after it has been mailed. If notice is sent by messenger, it shall be deemed to have been given on the day it is delivered.

17. Amendments. This Agreement, or any term hereof, may be changed or waived only by a written amendment, signed by the party against whom enforcement of such change or waiver is sought. 18. Delegation. PNC Bank may assign its rights and delegate its duties hereunder to any wholly-owned direct or indirect subsidiary of PNC Bank, National Association or PNC Bank Corp., provided that (i) PNC Bank gives the Fund thirty (30) days prior written notice; (ii) the delegate agrees with PNC Bank to comply with all relevant provisions of the 1940 Act; and (iii) PNC Bank and such delegate promptly provide such information as the Fund may request, and respond to such questions as the Fund may ask, relative to the assignment, including (without limitation) the capabilities of the delegate.

19. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. 20. Further Actions. Each party agrees to perform such further acts and execute such further documents as are necessary to effectuate the purposes hereof.

21. Miscellaneous. This Agreement embodies the entire agreement and understanding between the parties and supersedes all prior agreements and understandings relating to the subject matter hereof, provided that the parties may embody in one or more separate documents their agreement, if any, with respect to delegated duties and/or Oral Instructions. The captions in this Agreement are included for convenience of reference only and in no way define or delimit any of the provisions hereof or otherwise affect their construction or effect.

This Agreement shall be deemed to be a contract made in Pennsylvania and governed by Pennsylvania law, without regard to principles of conflicts of law. If any provision of this Agreement shall be held or made invalid by a court decision, statute, rule or otherwise, the remainder of this Agreement shall not be affected thereby. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their officers designated below on the day and year first above written.

PNC BANK, NATIONAL ASSOCIATION

By:

Title:

SMITH BARNEY ARIZONA MUNICIPALS FUND INC.

By:

Title:

AUTHORIZED PERSONS APPENDIX

NAME (Type)	SIGNATURE

INDEPENDENT AUDITORS' CONSENT

The Directors and Shareholders
Smith Barney Arizona Municipals Fund Inc.

We consent to the use of our report dated June 30, 1995, included herein and to the reference to our firm under the captions "Financial Highlights" in the Prospectus and "MANAGEMENT OF THE FUND, Counsel and Auditors" in the Statement of Additional Information.

KPMG PEAT MARWICK LLP

Boston, Massachusetts
July 26, 1995

FORM OF AMENDED SERVICES AND DISTRIBUTION PLAN
SMITH BARNEY ARIZONA MUNICIPALS FUND INC.

This Services and Distribution Plan (the "Plan") is adopted in accordance with rule 12b-1 (the "Rule") under the Investment Company Act of 1940, as amended (the "1940 Act"), by Smith Barney Arizona Municipals Fund Inc., a Maryland coporation (the "Fund"), subject to the following terms and conditions:

Section 1. Annual Fee

(a) Class A Service Fee. The Fund will pay to the distributor of its shares, Smith Barney Inc., a corporation organized under the laws of the State of Delaware ("Distributor"), a service fee under the Plan at the annual rate of .15% of the average daily net assets of the Fund attributable to the Class A shares (the "Class A Service Fee").

(b) Service Fee for Class C shares. The Fund will pay to the Distributor a service fee under the Plan at the annual rate of .15% of the average daily net assets of the Fund attributable to the Class C shares (the "Class C Service Fee," and collectively with the Class A Service Fee and the Class B Service Fee, the "Service Fees").

(c) Distribution Fee for Class C shares. In addition to the Class C Service Fee, the Fund will pay the Distributor a distribution fee under the Plan at the annual rate of .20% of the average daily net assets of the Fund attributable to the Class C shares (the "Class C Distribution Fee," and collectively with the Class B Distribution Fee, the "Distribution Fees").

(d) Payment of Fees. The Service Fees and Distribution Fees will be calculated daily and paid monthly by the Fund with respect

to the foregoing
classes of the fund's shares (each a "Class" and together the "Classes") at
the annual rates indicated above.

Section 2. Expenses Covered by the Plan

With respect to expenses incurred by each Class its respective
Service Fees and/or Distribution Fees may be used for; (a) costs of
printing and distributing the Fund's prospectus, statement of additional
information and reports to prospective investors in the Fund; (b) costs
involved in preparing, printing and distributing sales literature
pertaining o the Fund; (c) an allocation of overhead and other branch
office distribution-related expenses of the Distributor; (d) payments made
to, and expenses of Smith Barney Financial Consultants and other persons
who provide support services in connection with the distribution of the
Fund's shares, including but not limited to, office space and equipment,
telephone facilities, answering routine inquires regarding the Fund,
processing shareholder transactions and providing any other shareholder
services not otherwise provided by the Fund's Transfer agent; and (e)
accruals for interest on the amount of the foregoing expenses that exceed
the Distribution Fee and, in the case of Class B shares, the contingent
deferred sales charge received by the Distributor; provided, however, that
the Distribution Fees may be used by the Distributor only to cover expenses
primarily intended to result in the sale of the Fund's Class B and C
shares, including without limitation, payments to Distributor's financial
consultants ant the time of the sale of Class B and C shares. In addition,
Service Fees are intended to be used by the Distributor primarily to pay
its financial consultants for servicing shareholder accounts, including a

continuing fee to each such financial consultant, which fee shall begin to accrue immediately after the sale of such shares.

Section 3. Approval of Shareholders

The Plan will not take effect, and no fees will be payable in accordance with Section 1 of the Plan, with respect to a Class until the Plan has been approved by a vote of a least a majority of the outstanding voting securities of the Class. The Plan will be deemed to have been approved with respect to a class so longer as a majority of the outstanding voting securities of the Class votes for the approval of the Plan, notwithstanding that: (a) the Plan has not been approved by a major of the outstanding voting securities of any other Class, or (b) the Plan has not been approved by a majority of the outstanding voting securities of the Fund.

Section 4. Approval of Directors

Neither the Plan nor any related agreements will take effect until approved by a majority of both (a) the full Board of Directors of the Fund and (b) those Directors who are not interested persons of the Fund and who have not direct or indirect financial interest in the operation of the Plan or in any agreements related to it (the "Qualified Directors"), cast in person at a meeting called for the purpose of voting on the Plan and the related agreements.

Section 5. Continuance of the Plan

The Plan will continue in effect with respect to each Class until November 7, 1995, and thereafter for successive twelve-month periods with respect to each Class; provided, however, that such

continuance is
specifically approved at least annually by the Directors of the Fund and by
a majority of the Qualified Directors.

Section 6. Termination

The Plan may be terminated at any time with respect to a Class (i) by
the Fund without the payment of any penalty, by the vote of a majority of
the outstanding voting securities of such Class or (ii) by a vote of the
Qualified Directors. The Plan may remain in effect with respect to a
particular Class even if the Plan has been terminated in accordance with
this Section 6 with respect to any other Class.

Section 7. Amendments

The Plan may to be amended with respect to any Class so as to
increase materially the amounts of the Fees described in Section 1 above,
unless the amendment is approved by a vote of the holders of at least a
majority of the outstanding voting securities of that class. No material
amendment to the Plan may be made unless approved by the Fund's Board of
Directors in the manner described in Section 4 above.

Section 8. Selection of Certain Directors

While the Plan is in effect, the selection and nomination of the
Fund's Directors who are not interested persons of the Fund will be
committed to the discretion of the Directors then in office who are not
interested persons of the Fund.

Section 9. Written Reports

In each year during which the Plan remains in effect, a person
authorized to direct the disposition of monies paid or payable by the Fund
pursuant to the Plan or any related agreement will prepare and furnish to

the Fund's Board of Directors and the Board will review, at least quarterly, written reports complying with the requirements of the Rule, which sets out the amounts expended under the Plan and the purposes for which those expenditures were made.

Section 10. Preservation of Materials

The Fund will preserve copies of the Plan, any agreement relating to the Plan and any report made pursuant to Section 9 above, for a period of not less than six years (the first two years in an easily accessible place) from the date of the Plan, agreement or report.

Section 11. Meanings of Certain Terms

As used in the Plan, the terms "interested person" and "majority of the outstanding voting securities" will be deemed to have the same meaning that those terms have under the 1940 Act by the Securities and Exchange Commission.

Section 12. Limitation of Liability

It is expressly agreed that the obligations of the Fund hereunder shall not be binding upon of the Trustees, shareholders, nominees, officers, employees or agents, whether past, present or future, of the Fund, individually, but are binding only upon the assets and property of the Fund, as provided, as provided in the Articles of Incorporation of the Fund. The execution and delivery of this Plan has been authorized by the Directors and by shareholders of the Fund holding at least a majority of the outstanding voting securities and signed by an authorized officer of the Fund, acting as such, and neither such authorization by such Directors and shareholders nor such execution and delivery by such officer be deemed to have made by any of them individually or to impose any

liability on any of
them personally, but shall bind only the trust property or
the Fund as
provided in its Articles of Incorporation.

IN WITNESS WHEREOF, the Fund execute the Plan as of
November 7, 1994.

SMITH BARNEY ARIZONA MUNICIPALS FUND
INC.

By:______________________
Heath B. McLendon
Chairman of the Board

WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.


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